FINAL TRANSCRIPT

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PHG - Q4 2007 Royal Philips Electronics Earnings Conference Call

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PRESENTATION

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

Ladies and gentlemen let me first welcome you to this conference call for the fourth quarter results of 2007 for Royal Philips Electronics. Specifically I would like to welcome anyone calling from the United States as we are aware that it is a national holiday there. I will make a few introductory remarks and then Gerard Kleisterlee and I will take your questions.

The fourth quarter completed a successful year for us and saw us achieve a number of our important objectives for the year as well as strengthening ourselves for our Vision 2010. Our EBITA for the year came to 7.7% which achieved our target of over 7.5% which is a major milestone for us on our way to higher levels.

The annual comparable sales growth came to 5% which met our objective of an annual average growth of 5% to 6%. Again, this is a good achievement considering that we were behind in the early quarters. Comparable sales growth for the company was for the fourth quarter a robust 8%. DAP took prime position with 12% and Consumer Electronics was 10%. We were particularly pleased with our growth across emerging markets which averaged 17%.

In medical systems the comparable growth was 3% with growth driven by patient monitoring and customer services. Our comparable growth for the year came to 4%. In the quarter emerging markets grew by 13%.

The order intake in the quarter was strong 10% with 4% of this being for four long term orders. In total this gave us 6% order intake for the year which is a very creditable performance in this difficult year. Consequently we have confidence in our future however we expect continuance of the short term market for imaging systems in North America. The 18.1% EBITA margin in the quarter gave us 13.5% for the year which means that the weakness in the imaging systems market had been made up elsewhere, particularly in ultrasound and patient monitoring as well as customer services where we had a good performance. We mentioned a few months ago we were reviewing our options for our shareholding in MedQuist and are hoping to finalize this in the near future.

In DAP the excellent quarter has given us a 12% comparable growth following 17% in Q1, 14% in Q2 and 20% in Q3. This very strong growth came in virtually all product groups and geographical regions. Once again we are benefiting from our investments in innovation, emerging markets and the brand. In emerging markets our growth rate was in excess of 20%. We continue to look forward to good growth for these product categories, however, the comparisons are now, of course, much tougher.

EBITA of 19.6% in the quarter was strong and mainly a function of the higher sales and the management of our costs. This gave us 17.6% margin for the year which is higher than the target we gave you, primarily due to higher sales. DAP has had an outstanding year.

Sales in Consumer Electronics on the comparable basis increased by 10% which was in line with our predictions. This growth came in all the individual businesses and with good growth in emerging markets which was 17%. The one area that didn't grow was Connected Displays in the United States which reflected our often stated aim of focusing on profitability.

The EBITA margin of 6.7% in the quarter gave us 3.1% for the whole year at Consumer Electronics which is in line with our target of 3% in spite of price pressure on flat TV in the United States. We'll continue to focus on improving the margin as rapidly as we can. We continue to see the benefits of our business model which has kept the net operating capital at minimal level during the year and is again negative at the end of the year.

The Lighting sales growth was 8% with strong growth in lamps, luminaires and lighting electronics reflecting the growth of the sales of green products. In addition we saw 17% sales growth in emerging markets which we expect will continue. The growth this quarter allowed us to achieve an annual growth of 6% which is the target we gave ourselves.

The Lighting EBITA percentage was 11.2% after restructuring, purchase accounting and other incidental charges of EUR22 million in the quarter. For the whole year 2007 our EBITA percentage was 11.9% which is in line with our target of 12%. We continue to remain positive on the development taking place in our Lighting business as well as in the lighting market and we look forward to a good future.

The results for Innovation and Emerging businesses reflected the increase in IP income. Gains of this nature can be repeated, but it's difficult to forecast the timing.

In Group Management and Services we see the continued impact of our cost reduction actions as the corporate and regional costs were lower than last year. However, the costs were slightly higher than our recent run rate due to additional legal costs and charges of EUR8 million incurred to actually reduce our costs. However, this proved to us that our continued cost reduction plan is being successful. The brand expenditure of EUR54 million was slightly lower than we guided and a total of EUR111 million for the year was in line. Our guidance for 2008 is that the amount will reduce further down to EUR95 million, more or less evenly spread over the quarters of 2008.

The corporate sponsored brand campaign will be largely phased out in the coming two years. During the quarter we generated EUR3.8 billion of cash; EUR1.4 billion came from operating activities, EUR2.4 billion came from the sales of LPL and TSMC shares. We will continue to focus on our cash generation and it remains part of our incentive scheme.

The inventory percentage of 12% is 1.2 percentage points higher than one year ago. This is partly due to the impact of acquisitions as well as higher inventories in medical, some of which in Services which is meant to increase customer service levels. We have no special concerns about our inventory position other than we need to see some reductions. The results relating to equity accounted investees had significantly improved due to the improved operational performance of LG Philips LCD as well as a gain on the sale of 13% of the shares. There are virtually no other items in this arrea of our results.

In line with Vision 2010 commitments we intend to have leverage on our balance sheet before the end of 2009 consistent with our rating objective which is to keep both Moody's and S&P in the A category. In fact it's likely that after paying for acquisitions already announced, that is to say Respironics and Genlyte essentially late Q4, combined with accelerating or share buyback program and the payment of the increased dividend we could be in a net debt position at the end of April, subject to the further sale of stakes. We also have long term debt repayment of EUR1.7 billion this year, so we could be going to the market to raise capital within a few months.

Finally, I draw your attention to the proposed 16.7% in our dividend per share. It reflects our 2007 revised dividend payout policy as well as our (inaudible) in our long term future and commitment to Vision 2010.

Let me now ask Gerard Kleisterlee for his comments. Gerard any particular comments?

Gerard Kleisterlee - *Royal Philips Electronics - President & CEO*

Well Pierre-Jean I think that you've shown it up quite well and in detail. For me the year 2007 boils down to Philips having made major progress in three important areas. First of all, operationally, with meeting our growth target and exceeding our EBITA margin target. In most of our businesses we've made a significant step forward in terms of operational performance.

Secondly, strategically and particularly with the acquisitions of Color Kinetics and Genlyte in Lighting and Respironics in Healthcare, we've significantly added to our global leadership positions for Lighting and Home Healthcare and thereby strategically strengthened the position of our portfolio.

And thirdly on the financial side in terms of capital reallocation, both with the attractive acquisitions that we have made and the announced share buy back program of EUR5 billion, we've taken significant steps to accelerate the capital reallocation which now also nears completion. So portfolio restructuring is nearing completion, capital reallocation is nearing completion, operational performance is good. And I'd like to point out that we have now a portfolio of activities that has some proven resilience against downturn.

I took the trouble to look back at our performance over the years 2001, 2003 where we also had severe market declines and stock market and financial turbulence and it's remarkable to see how in particular our Domestic Appliances Personal Care division and Lighting division continued to perform well throughout that period. It's obvious that Healthcare is a primary need in good and in bad times.

And I'd like to remind you that a deficit reduction act in the United States was enacted at times of good economic growth, because that dates from 2006, and as such has nothing to do with looming recession. And that since 2001 we have significantly de-risked our CE through business model re-engineering. And I cannot stress enough that in terms of profit impact and that's what matters, not revenue impact, but profit impact, CE represents less than 13% today of our sector EBITA.

So all in all a robust portfolio with an ability to whether also slower -- times of slower economic growth and an excellent geographic spread with 30% of our sales across all divisions coming from emerging markets where we've shown, in Q4, excellent growth in excess of 17%, 18% and some territories well in excess of 20%.

So if we take the combination of that all, I say good progress operationally, strategically financially in 2007, excellent starting point, both to cope with the short term deteriorating economic climate, but also to achieve our medium objectives as set out in Vision 2010.

And with that I would like to open the floor for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen at this time we will begin the question and answer session. (OPERATOR INSTRUCTIONS). Thank you, one moment for the first question please.

Thank you, our first question comes from Mr. Nicolas Gaudois. Please state your name followed by your company name, followed by your question.

Nicolas Gaudois - *UBS - Analyst*

Yes, hi there, this is Nicolas Gaudois from UBS. First question on Medical. Could you may be help us understand the likely margin that [I may] see into 2008 where we're likely to see lower growth, if any growth at all in imaging equipment, and stronger in monitoring cardiac care and home healthcare which as well as services which should arguably have got higher margins. So should we see EBITA margins improving year-over-year as a function of mix primarily?

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

Yes, okay, good morning Nicolas. Actually let -- before I go into the margin, let's talk revenue. Because you talked about no growth at Medical, that's not the way we see it. I think I will send you to the guidance given by Steve Rusckowski actually a few weeks back during the call on Respironics. The way we see it is probably flat [limited] growth in the emerging market in the US in the first half and then we'll wait and see what happens for the second half of the year. And for the rest of the business, I would say a market growing at 3% to 4%, and that's a market in which I think incoming orders tend to show that we are gaining share.

And finally to comment on your service -- the service element; that is obviously a historically higher level of growth which helps the mix. So I think certainly we're not seeing flat growth for Medical in 2008 versus 2007; we see something along the criteria which I just described.

Now to your point on the margin, I think there I will say that if you go back to the presentation we made in May at the analyst conference, we gave to you a list of drivers, actually one was supply management, the other one was IT, the third one was supply chain, the fourth was sales organization and the fifth one was industrial footprint. Those five levels to actually -- regardless I would say of market circumstances, those five levels, increasing levels of increase of the margin of Medical are obviously very much in place, and we will absolutely work on those five levels and we will update you on the progress made, as we do every year, at the next Medical conference in the course of the second quarter.

So to be more specific, we will obviously shoot for increasing our local sourcing, which if you remember stood at a 27% level back in '06, and we will obviously aim at increasing that; that's quite crucial. If you remember as well as far as IT spending, we were at 3.4% in 2006 and we aim at being below 3%, so that's another important level. But I'm not going to go through the list, it's all detailed in that particular analysis, Nicolas. And I think I would like to send you there because those plans are absolutely highlighted and those other plans we will absolutely follow.

Nicolas Gaudois - *UBS - Analyst*

Okay great. And just on domestic appliances, I'm obviously aware that going forward you'll embed this in consumer lifestyle. But if I was to think of the old business and where revenues are, is it fair to say that the operating leverage has changed or has gone up a level i.e. the corridor for operating margins that can achieve is inherently higher, it has been by virtue of the size of the business?

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

Yes, well I think it's several things. What you're alluding to is the volume. Clearly with a 15% growth, 12% in Q3 and you have to -- in Q4 excuse me, you have to realize that last year we grew I think 13% in Q4 '06 at that. This is now -- and we have told you at the end of Q3 obviously Q4 is the first quarter where we are now compared to really strong '06, but that led to a 12% growth in Q4 '07.

So you are correct, volume at that with a 15% for the year is helping, but it's more than that. I think if you really go through that and you scrutinize our numbers, you will see that the geographic mix of that has changed quite significantly in 2007 and they grew quite significantly in emerging market, and they now have business which is more than a third, actually in emerging markets, which certainly is helping.

And the third thing, which is helping us I would say, maybe not to grow, but certainly to defend what we have, I will take the example of a mature business in a market which is currently exposed and I will take Shavers in the US. If you look at our numbers on Shaving Q4, as Gerard mentioned, in the US actually we had three PDs going down in Q4. One business going down, or going up, excuse me, which was Medical, but if you look at DAP what was interesting is that we came down in Shaving in the market where the customers went to the lower end of the range of products, which ended up with products with obviously lower selling prices, but which for us are carrying the same level of margin.

So the other element I want to mention on that, is that the bandwidth of the offering between, I would say, high end to low end of the range, at margins which are consistent around that spectrum is something which is quite important for us as well going into this potential difficult time. So those are the elements, Nicolas, which certainly have played a role and are playing a role in DAP.

Nicolas Gaudois - *UBS - Analyst*

Thank you very much.

Operator

Thank you. The next question comes from Mr. Simon Smith. Please state your name, company name, followed by your question.

Simon Smith - *Citigroup - Analyst*

Oh hi, yes, it's Simon Smith of Citigroup. I guess I wanted, if I could, to come back again to the consumer businesses. Clearly you've given us the insights into the very strong dynamic you're seeing in emerging markets and you commented there that, I think you were highlighting a fact that you had seen some negative progressions in Q4 in the US. I just wondered if you could maybe just broaden that out and talk within -- in Consumer Electronics and DAP of the trends that you're seeing within regions? And maybe if you are already starting to change your behavior in some of those markets which seem to be slightly more at risk and I mean, particularly, in areas of promotional spend which I know is a quite large and quite flexible part of your cost base particularly in DAP.

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

Simon, yes. I think where we have seen -- actually Q4, when you really look at it, with a bit of distance, you are correct. We saw in the US what everybody is reading in the newspaper which is indeed a slowdown, but on the other hand we saw actually resilience of our portfolio already in Q4. I just gave the example of Shavers, so I won't come back to it.

Now your question is, do you see it in other places on the planet? I think the one country or the countries on the consumer side where we saw a little bit of a weakening, probably was the UK where there was a little bit of weakening there on the consumer market. Beside that you saw that all-in-all in Europe we were up 11% and that was not only your professional businesses, it was actually of consumer businesses showing still some pretty much some resilience in those territories and certainly in Asia, no sign of a slowdown. So I think, I would say, OK-ish to answer your question as at Q4 is concerned, I think. And the year '08 is way too young to say anything more.

Are we taking already measures to actually address a potential slowdown out of the US? I think there are long term measures that we've already taken and those long term measures are a portfolio of products with a range which enables us to, of course, still satisfy customers with the lower price point products on an as-needed basis with the same percentage margin for us, that's one level.

Innovation; I think we will not slow down on innovation. You will see, we are right now introducing brand new products for instance on all Healthcare. So we are going into '08 continuing to innovate, that obviously is line of defense number two. And line of defense number three, and certainly that is important for DAP, CE to some extent was already there, even though CE grew quite nicely in emerging markets. Line of defense number three is, of course, emerging markets. You want to obviously have a produce mix because, as Gerard said as well, we grew in Asia and China above 20% including in consumer businesses. Now have we started shrinking selling expenses? The answer is no.

Simon Smith - *Citigroup - Analyst*

Could I ask a quick follow-up question?

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

Sure.

Simon Smith - *Citigroup - Analyst*

In terms of Consumer Electronics, you obviously put in there the point that you're going to take decisive action to look at areas of the business, particularly Connected Displays, where you've got unsatisfactory margins, and clearly, comments would obviously point towards your US business. And I just take it that that sort of action, given the seasonality of your business and the weaker quarters that you have earlier in the year, that taking action earlier, rather than later, is what we should be looking for from you.

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

Yes. I think Simon, if you look -- you are correct, in the press release, we have actually referred to -- we have referred to this decisive action points. On the other hand, action in reality was referred to earlier than that. If you go back to Rudy Provoost and I think you were in the room you'll probably remember that earlier December during our consumer day, I think I take you to the presentation and to the verbatim to the very explicit points that Rudy made during the Q&A, I think you have the elements and the ingredients of what we are doing there. And let me re-summarize them for you.

On Connected Display, there obviously, absolutely in terms of product placements, total discipline, which is something that we've done for quite a few a years as you know in the domain of DAP, because that's a recipe we've used in DAP for quite some time. And on the other hand, and that applies to the US as well, we have product categories in the US where the model is closer, you might say, to the DAP model, and that could be related to peripheral and accessories and entertainment solution. And there we will play the DAP game as well in terms of innovation as well as in terms, of course, of leveraging of the brand. So those elements were absolutely, I would say, highlighted in December and we've gone the extra mile to make it clear in our press release as well as in our management agenda for the year 2008 so that everybody is clear about it.

The one thing that I will add Simon, which we said a couple of times, but talking to investors and analyst in separate sessions, I want to reiterate the fact that we will disclose the Connected Display numbers in 2008, so that you and the market, as well as investors, can see exactly where we are on that particular dimension of the consumer lifestyle portfolio.

Simon Smith - *Citigroup - Analyst*

Great, and in terms of cost, could you give us any indication as to whether you think the changes you make could lead to substantial one-off costs?

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

It's too early to say. We had already, some one-off in the P&L in 2007; we didn't disclose them. As you know, we usually only disclose one-offs when they are, I would say, [discreet] items in excess of EUR10 million; that's more or less the rule we follow. We will have some one-offs and we'll disclose them at times on our consumer lifestyle plan, which was presented to you as well as part of that same conference. I send you to those slides. We referred to the geographical footprint, we referred to the organizational structure and we referred as well, to the optimization of processes. I think that was the least of the particular points we focused on, to indeed say that EUR100 million to EUR200 million saving over the next two years. So those elements are there and if there are someone one-offs, which I guess there will be, we'll disclose that as such as part of that particular process.

Simon Smith - *Citigroup - Analyst*

Thank you very much.

Operator

Thank you. Our next question comes from Mr. Simon Schafer. Please state your name, company name, followed by your question.

Simon Schafer - *Goldman Sachs - Analyst*

Thank you, good morning; it's Simon with Goldman Sachs. I want to ask a follow-up question on Medical. Perhaps again, the revenue and the margin are a little bit below your own expectations, but then the order growth at 10%, I think GE was talking about a contraction on the order side, and, Pierre-Jean, you actually mentioned market share gains. I was wondering, what specific areas does is it, you think, is allowing that type of market share gain and what else is it that is allowing Philips to do a little bit better in this quarter?

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

Well, I think, yes, I thank you for reiterating that 10%; I think 10% incoming order growth. And we were -- and I wouldn't want you to read more than what we mean about us disclosing the 10% including basically four points. We've had historically, every year, long term orders, but in these difficult markets on imaging we want you to have absolute complete clarity on what we do. And I think the fact we're telling you that [return] in Q4 to come to a four - to come to a six excluding the four, is just one more step towards clarity and you shouldn't read more than that.

So that 10% is indeed indicating some gain in market share. Where are we seeing this? I would say that on the imaging system we've done well, and by the way, this incoming order growth has been solid in both the US, where it's at 6% as well as international where it's been around 10%. Now talking about our imaging system, probably MR is a territory where we've started regaining a little bit of ground, which is something we take some comfort on. Because obviously when we have trialed Intermagnetics you remember, a year ago, we told you that the proof points on the success of Intermagnetics, which were not only integration costs, but could we actually get our market share on MR on a very fundamental non-invasive modality back up? I, okay still young, I think it's only a year old, the acquisition of Intermagnetics, but certainly MR numbers were a positive surprise in terms of incoming orders in Q4.

On the monitors on cardiac care, then we are continuing to do very well. I won't give you too many numbers, but certainly there we are continuously scoring points and definitely gaining share both internationally as well as in the US. I think that would be probably your answer on orders.

The weakness probably continued on CT, even though it was a touch better than we thought in terms of orders, and still some difficulties on CV, cardiovascular, especially on the back of the stance points that has been alluded to in various analysts' reports which was confirmed in Q4.

Simon Schafer - *Goldman Sachs - Analyst*

Okay, thank you.

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

I think that's as precise as I can be.

Simon Schafer - *Goldman Sachs - Analyst*

Absolutely. My second question would be specifically the second half of '07 obviously, a period of M&A and that transformational change now being implemented. You talked about the change in the capital structure, but as far as M&A is concerned, just to remind us as to what you think -- where you are now in terms of having to do more, wanting to do more. Is that type of the upper threshold of ceiling in terms of size? Good amount of integration to do, in other words put simply, is there more to come in terms of that magnitude of size or are you focused on the integration now?

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

Well before we talk about more acquisition, let's talk about do we have the capacity to do that. I think one of the elements, very important I'm sure you've seen as part of our release, we're going a long way towards our shareholders. We've done two things I think, as you know it was a packed Q4 with news, I just want to turn back the clock for one month if I may?

As you remember in the last part of December we announced that we were triggering another buyback on the capability which had been given to us on the modification in the Dutch tax law. So we announced that EUR5 billion buyback completely tax free, which of course, for us is extremely important. And in this press release of this morning we're giving you another very important piece of news which is to say that we are going to accelerate that buyback to be largely complete by the end of '08. So in terms of capacity this is close to EUR5 billion which will be invested in buyback in the course of '08, which of course, given the development of the share price is probably something which is definitely creating value even more.

The other thing you saw in that press release is obviously discipline in our balance sheet, not only going towards leverage and efficiency, but discipline as well vis-a-vis rating. I think the A minus territory is something certainly in current market circumstances we feel good about because this is a time about being robust. So if you combine the EUR5 billion I just talked about, the leverage with discipline and, of course, the settlement we're going to have to make on the investment made on Respironics and Genlyte, and if I may say combined with the 17% increase in the dividends which will have to be paid as well in Q1, you do your math and you will see that our capacity is actually pretty much used.

Right now to come to your final point, which is, what does that mean in M&A? We will definitely focus on integration; I think we were absolutely focused on that. You probably remember that we created a dedicated department to integration early last year; that department is going to be even more busy obviously going into '08. You will see that integration is in the management agenda of Philips, if you go to that particular agenda which was published this morning. And in terms of additional M&A you might see small moves in particular in emerging markets, small tactical moves, in particular in the [realm] of Medical as we had alluded to in the past, and more than I think probably essentially a focus on integration this year.

Simon Schafer - *Goldman Sachs - Analyst*

Great, thank you very much.

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

Thank you.

Operator

Thank you. The next question comes from Mr. Janardan Menon. Please state your name, company name and please limit yourself to one question. Thank you.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

Yes hi, it's Janardan from Dresdner Kleinwort. I just want to go back to the regional performance of the company. You reported some very strong numbers for emerging market growth in areas like Consumer Electronics, DAP, Lighting. What has been the recent trend? When you're saying 17% up in emerging markets in Q4, 20% up in DAP, is that an acceleration from previous quarters or was that the run rate even in previous quarters?

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

Yes, well let's take them -- and I will still call them division. This is the last time I'll call them division because as you know next year we'll talk about sectors. So let's call them division and let's go through them one by one. I will say that the growth of Medical, of PMS in emerging market is an acceleration. Actually clearly, our presence -- as you know we were the young kid on the block in emerging markets for Medical, you know the whole story around (inaudible) etc. We've made some recent acquisition; you remember the acquisition of the company called PMI in Brazil. Basically we might have more to come so the process of the increase of Medical in emerging markets is something recent and probably something which will accelerate in the future. So I would say acceleration in '07 with more acceleration in the quarters to come.

The other one which saw some acceleration is clearly DAP. DAP certainly finished last year with a very strong backbone in the US, last year being '06, very solid presence in Europe. And if you look at the emerging market mix of DAP across the quarter you will see an acceleration which now puts DAP as more than 30% of its mix in emerging markets, and that is something which absolutely we will focus on continuing.

Consumer Electronics we've gone down initially. If you remember look at the numbers, we had a percentage above 30% which has come down for various reasons. The fact that we exited phones, that fact that we had a decline in LatAm earlier in the year, and emerging markets now in the Consumer Electronics portfolio is reaccelerating on the back of gains of shares and new product categories being introduced in that part of the world.

And finally on Lighting. There, I would say, you won't see an acceleration because this is probably the product division which has had consistently the strongest mix in emerging markets over years, and that I won't say it's going to accelerate, it will say robust mix. You will see actually -- we are expecting continued growth in Lighting in Europe. And the interesting thing is one of the trends which we are starting to see is the upcoming of solid state lighting technology in professional markets, in particular in Europe, and that is hopefully a trend which will carry us in the quarters to come. And that's part of the comment that Gerard made on the resilience of our portfolio on the back of the green wave or cost of ownership wave in Lighting.

In Q4 let me give you a bit more numbers. The BRIC in Q4 grew 21%, PMS grew 62% just to give you a flavor, DAP grew 28%, CE grew 15% and Lighting grew 25%, so just to give you a bit more flavor on the fourth quarter revenue growth.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

And will your margins in emerging markets, in CE I'm aware that it's higher in emerging markets than in the US, but in other divisions what would be the US versus emerging market mix of margins?

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

No I think we -- we're back to our model. If we cannot come up with the same level of margin, and by the way that does not only apply to the emerging market, that applies to -- it's just our model which is an international model. If we cannot come up with margin, in those situations we decide to actually keep the particular category in the particular market. So I will give you two examples on that point in non-emerging markets which are certainly relevant to the emerging markets as well.

If you take oral healthcare we are in very few countries in Europe. Actually, we're not in France, we're not in most of the south markets in Europe because there we can't be endorsed by the professionals. Then we'll escape the category because we couldn't get the proper margin. If you take Shavers in North America, there we've gone with a spectrum of products which enable us to sell lower end products in tough times, but with the same type of margin percentage than we have with higher end products. So this is the nature of our model and that's what we try very much to absolutely keep in the emerging/Asian territories.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

And was the IP income a one-off?

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

Well, the IP of Q4 we disclosed that. Let me give you on IP a little bit of a story. If you remember innovation in emerging line we guided you early in the year, I'm sure you remember that, well south of EUR100 million because we were actually at that time expecting some income on IP, so we knew we should get it. We thought actually in Q2/Q3 we could not quite -- we were not quite sure we were getting it and the we guided you up in total transparency in that latter part of the year, and we finally were capable of coming up with IP income in Q4.

So the answer to your question is we have IP income; it's the nature of our business. The only difficulty is that it is sometimes difficult to predict. And if you want time things perfectly and be able to absolutely guide you might at time compromise value. So we prefer to basically not necessarily guide you to the dot and come up with the income and maximize the value at the time we actually come up with the income, which is pretty much what happened on Q4 on IP on the line innovation and emerging.

Janardan Menon - *Dresdner Kleinwort Wasserstein - Analyst*

Yes. Thank you very much.

Operator

Thank you. The next question comes from Mr. Martin Wilkie. Please state your name, company name, followed by one question and limit yourself to one follow up. Thank you.

Martin Wilkie - *Deutsche Bank - Analyst*

Yes, good morning, it's Martin Wilkie from Deutsche Bank. Just a quick question on the Genlyte acquisition, which I think is going to be completed some time later this month. Given Genlyte's exposure was largely, or is largely, to the commercial building sector in the US, can you let us know have you changed your outlook for how that sector could be growing in 2008? And, for example, should we be seeing increased energy efficiency trends to offset any cooling in the commercial buildings market? If you could just give us your thoughts on that, please?

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

Yes. I think, well, yes. I think first of all before -- to be very specific about the exposure of Genlyte. Genlyte is exposed at the tune of 11% to the residential market, and the rest of Genlyte is so-called commercial or industrial. So I think it's very much a business which is totally towards professional offices, factories and else. So this is to say it's 10% exposed to the meltdown which is currently being seen on the residential market in North America. So that's point number one.

Point number two, and by the way that particular market, Genlyte, has gone through cycles. That cycle going down has -- there is no evidence yet that that cycle is coming down in the US; I'm talking about the commercial one. But we've looked at cycle historically and we have plotted as much as we could the history of those cycles, because those cycles have been quite consistently coming in the past and we've plotted them in our model as much as we could, looking back at the past.

Now, the importance of Genlyte is, in the latter part of your questions, which is the channel. The professional segment in the US has still been very conservative in introducing the new technologies which relates to the cost of ownership, i.e. technologies which enables a professional to reduce the cost of energy using their lighting solutions. There are lots of new technologies coming in which are already available, simply not leveraged enough, lack of awareness, lack of dedicated channels.

The other thing is SSL today is not very present in professional channels in the US. Solutions are now starting to be available; I was alluding to the growth of SSL via professional channels in Europe. And, again, our goal in the acquisition of Genlyte is absolutely to focus on that, which is to bring the technologies which are already in existence via the channels of Genlyte in order to absolutely convince end customers that there is money to be saved in the energy bill of businesses via lighting solutions. And that's what we are going to focus on.

Now in terms of return, we have talk about being EVA positive after year four, and at this point of time we have no reason to change the guidance we gave at the time we disclosed the acquisition of Genlyte.

Martin Wilkie - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

Thank you. The next question comes from Mr. Julian Mitchell. Please state your name, company name, followed by one question with one follow-up question.

Julian Mitchell - *Credit Suisse - Analyst*

Hi, yes, thanks, from Credit Suisse. My first question please is on your Medical business. If you could talk a little bit about what's happening exactly in your Japanese business, which you mentioned has softened? And also, if we think about the margin profile in Medical, stripping out the inventory gain, your margins were down year-on-year in the fourth quarter, GE's margins in Medical were also down, so could you talk a little bit about what you are seeing in the pricing environment, particularly in US Imaging? Thanks.

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

Yes. I think, let me address your Japanese questions. I think in Japan the negative comparative between Q-to-Q was largely led by the fact that, and I can't remember, I would have to go back to the release of Q4 '06 which I don't have in front of me, but we had a very strong 2006 in Japan. In particular, we, I think, took the large percentage of the MR market in that particular year and defib as well. So we had a probably bit, I wouldn't call it abnormal, but we certainly enjoyed it at the time, but we probably had a high or higher market share than our normal market share in Japan in Q4 of 2006 which led to these negative comparables for this particular part of the world as far as Q4 '07 is concerned.

Now coming back to your question on margin, yes, we disclosed a 1.1 point sweetener because -- in our margin for Q4 2007. Now what did we see specifically in Q4 2007 margin in Medical? I would say that we essentially, on the guidance for growth, we came up with that 4% we talked about, but the reality of it is that we would have liked to see a little bit more. So certainly essentially our margins suffered from a shortage of volume and probably a bit of an unfavorable mix even though the volume was there on CT, on computed tomography, on that fourth quarter.

Did we see pricing pressure? I think the 3 to 4 percentage points of pricing pressure that we've seen in the past years was certainly there, maybe one more point in addition in 2007 versus 2006, but I wouldn't say that there was a significant deterioration of pricing in '07 versus 2006. And I certainly would not send a message that the fact that our incoming order is at 10% plus in Q4 '07 versus one of our competitors announcing lower numbers for orders in that same Q4 was actually the bought out market share. That is not the case.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks. And just for the follow-up, could you please remind me of the length of visibility you have on your four main businesses, i.e. how large is your order backlog versus your revenue run rate? Thank you.

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

Yes, it's very difficult to answer. I think maybe on the ultrasound/monitoring/cardiac care we have a small backlog. So the orders of a particular quarter are the best proxy of the good health of this particular group of business units. So there you could see that the Q4 orders was probably a good sign of the health of that particular part of the business.

For the rest of the portfolio, which is essentially imaging systems, there we have a backlog which could go up to a year for the heavy modalities, in particular, MR and to some extent Nuc Med, Nuclear Medicine. A touch lower shorter term gradually for then X-ray, cardiovascular, and finally CT, which is probably the one with the shortest lead time, in particular, if you come up with units which are more simple in the offering.

So I would say very short-term backlog on ultrasound and specifically monitors and cardiac care, and gradually longer for the imaging part. The most stable part of the business is, of course, services because in there, that's where we have multi-year contracts and that's where the guidance is probably the easiest to make.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks. And how about just very quickly, if you could give a broad brush sense of the backlog in Lighting and Consumer? Thanks.

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

Well in the Consumer businesses, very little. That's representing 15%, probably maybe a notch more, allowing now that we consolidate Consumer Luminaires, but it's 15% plus I think. I would say the 15% plus we have as a total mix of Lighting, it's very much a Consumer business with the visibility you have there which is, as you know, very little.

On the professional side, we have a portion of our business, which goes via projects, but that is still not the big portion of our business. So I would say, on the professional side, as well, maybe a touch longer than we have on the consumer side. But there you -- obviously you scrutinize your backlog as much as more importantly your incoming orders to fill the trends of what's coming up next. And that's why I alluded to, in particular, the upcoming SSL expressed orders or trends in the professional luminaire businesses in Europe, which is something -- which probably is something new and encouraging because, of course, this is a technology which will save energy costs for professionals in particular Europe.

Julian Mitchell - *Credit Suisse - Analyst*

Thanks.

Operator

Thank you. Our next question comes from Mr. Andreas Willi. Please state your name, company name, and please limit yourself to one question only. This will give more participants the opportunity to ask a question. Thank you.

Andreas Willi - *JP Morgan - Analyst*

Good morning, it's Andreas from JP Morgan. I've a question on your corporate brand campaign. You said you will phase that out over the next two years, which is obviously giving you quite a boost to profitability. What gives you the confidence that this will not affect sales growth, given the success it had over the last two years in boosting your top line?

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

Okay. Well first of all, if you go back to the history of that program and go back to the press releases two or three years ago, it was always meant to be an investment. It was not meant to be a spending or a selling expense; it was meant to be an investment in one of our most precious assets, which is our brand. And we have very carefully monitored the impact this investment plan over the last three years has had on our brand and we've amply communicated on the progress our brand has made in the so-called interbrand ranking. And you can see that over the last three years that progression has been quite robust. So the fact that we are now going to scale down on that investment plan is something which was planned all along. At the same time, the selling expenses in the product divisions are there and will be there to support our business.

And I would add one more thing. The fact that we don't have brand spending at the corporate level, or I would say disclosed at the corporate level, doesn't mean we will not spend money on the brand in the sectors. I think what we are saying is that we will continue a brand spending program, but the only thing is that we think that it's mature enough so that it should belong to the sectors.

Andreas Willi - *JP Morgan - Analyst*

Thank you. Quick follow-up question, how will you account for LG Philips in 2008?

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

How will we account? I think well we are -- it's quite simple. I think we are consolidating and we are consolidating, I think essentially because of two reasons. The fact that we are close to 20% and the fact that we have a very important couple of positions in that company. And subject to the evolution of those elements, of course, which I can't comment on at this particular point, we might end up at a later point in 2008, stopping the accounting consolidation of that particular participation.

Andreas Willi - *JP Morgan - Analyst*

Thank you.

Gerard Kleisterlee - *Royal Philips Electronics - President & CEO*

And sorry, for clarity purposes, lastly let me add on the brand that also in the past few years the majority of the brand effort has been carried by the divisions. That's where most of the advertising above and below the line money is spent. The corporate campaign was, and the money that we have at corporate, was boosted with the reintroduction and the repositioning of the brand and the introduction of Sense and Simplicity. That effort now is stabilizing and we are now going back to the normal situation that we had before that, and that we should have. And that is that the brand effort is carried by the divisions and does not need an additional boost and support from a corporate level.

Operator

Thank you. The next question comes from Mr. Timm Schulze-Melander. Please state your name, company name, and please limit yourself to one question only.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Morning guys, congratulations on a very good set of numbers. Maybe one question with two parts then. You commented about M&A capacity coming into 2008. And I just wanted to refer back to a slide in your Respironics presentation pack where you talked about Home Healthcare being somewhere in the region of EUR1.5 billion in annual revenues and that a second wave really indicated that you were looking to take that to about EUR5 billion. So I just wanted you to comment on that and what kind of timeframe we should be thinking about, because clearly, that's a more meaningful expansion than you'd get from making some infill medical acquisitions in Asia.

And the second part was just coming back to the decisive steps comment, with respect to LCD TVs. Just to make sure that I understand this correctly. In the most immediate sense, we should think of that decisive steps comment to be what Rudy was outlining in the conference, which was product placement discipline, product category management discipline etc., and that for the time being, that does not include considering divestment. Thanks very much.

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

Okay. I don't have the slide you are referring to on Home Healthcare. I think from recollection, I think what we alluded to is that the respiratory business was a EUR5 billion business. I think that is something we referred to in a couple of slides. I would have to go back to that slide and I apologize for not having it in front of me, but I think the EUR5 billion referred to is the size of the respiratory business. Are we interested at the Home Healthcare and to grow it beyond the EUR1.5 billion you have referred to? Yes I think that's a fair point. Home Healthcare was something which was actually spotted as part of the 2004 statements, which was made by Gerard Kleisterlee at the introduction of the health and wellness initiative, which led to mother care, baby care and home healthcare, including respiratory. There, we made some comments on indeed the business we wanted to create.

We are now four years down the line. We have actually basically gone into mother care, baby care, that is AVENT. We have now gone into home healthcare in two steps. One with the remote support of elderly people, that was Lifeline and Health Watch, followed by Raytel. And we have completed the Home Healthcare move with, as you know very well know, Respironics, which has the beauty of combining largely service taking place at home with the [switch stock] that we have supported earlier on, which is respiratory, which is a EUR5 billion business. Will we grow and focus that as a differentiated part of our healthcare strategy? Definitely.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Okay, and just on the LCD side?

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

Yes. LCD I think it's hard to be more -- I think you've read us well. I think we -- Rudy has been clear and as I just mentioned, I think decisive means that it's part of our management agenda, in line with Rudy's points. I think Rudy has predisclosed to you, to the market, what we were going to do there, very much, by the way, part of managing CE, as we do manage today DAP as part of what is now going to be consumer lifestyle. And I think decisive referred to the fact that now the whole organization will absolutely be governed by those principles and it's up to the point that it's now one of the absolute bullet points of our management agenda for 2008.

Timm Schulze-Melander - *Bear Stearns - Analyst*

Terrific, thanks very much.

Operator

Thank you. The next question come from Mr. Didier Scemama. Please state your name, company name, and please limit yourself to one question only...

Didier Scemama - *ABN Amro - Analyst*

Good morning, it's Didier Scemama from ABN Amro. I'll just a starter question, if I may, on your feel for the inventory situation in Consumer Electronics/DAP in Europe and the US and if you see anything particular there to highlight?

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

No, I think, good morning, Didier. I think, no, actually Consumer Electronics we don't disclose those numbers, but Consumer Electronics finished with probably their lowest inventory level and so absolutely no evidence of jamming the channels. And as far as DAP is concerned, they ended up with pretty low numbers. There is just one exception at DAP to be absolutely specific which relates to all healthcare, but there is a reason which is that we are right now introducing a brand new range on Oral Healthcare and Sensiflex, which obviously has the nature of jamming a little bit the channels when you change from one generation to the next. But let me say that was on the back of a very robust quarter at Oral Healthcare, which is part of Health and Wellness in the fourth quarter.

Didier Scemama - *ABN Amro - Analyst*

At the retail level do you have a feel from your customers?

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

I'm sorry?

Didier Scemama - *ABN Amro - Analyst*

At the retail level do you have a feel from your customers' inventories?

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

We're not aware of -- normally we track that very, very carefully, but we're not aware of issues with our customers. And usually when there is a problem they are usually pretty quick on their feet at telling us.

Didier Scemama - *ABN Amro - Analyst*

Okay, and a quick question, if I may, on the Innovation and Emerging businesses and Group Management and Services if I maybe consider that as one corporate division. Do you have a feel for 2008 EBIT or EBITA operating loss?

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

Well on GMS, as you know it's always three blocks. One block on which you are being guided both in terms of absolute numbers as well as in rhythm which is the brand. I think the number is EUR95 million and we said it would be more or less, as well as we can project it at this point evenly spread across the year. The second block is what we call really headquarter and there the 50 basis points magic percentage, we'll try to do better than that, but I think that's something which obviously we'll stick to. And then there is an amount for pension and there we've guided you there, as well, in the press release. So all-in-all you are capable of pretty much modeling what this will be in 2008.

Didier Scemama - *ABN Amro - Analyst*

Okay. Maybe just a final question very quick, I'm sorry, if you can? In the case that the US economy enters a recession and that spreads over to the Western Europe and potentially emerging markets, what sort of strategy will you implement to protect or at least defend your margins in the consumer related businesses?

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

Well I think the best answer to that is to look at the past. Because Philips has a long history and one of the things we looked at with Gerard Kleisterlee quite carefully, and we will obviously dig into this even more, we've revisited a little bit of past. And if you go to the slides which are in the press conference you will see a couple of slides which gives you the history of DAP and Lighting over what was a difficult period in 2000 to 2004 where as you know, as analysts, you know there was a couple of -- and we've picked up by the way one professional business and one consumer business because obviously we're looking at the two. If there is a recession everybody talks consumer, but you could always make a point what about professional sectors, as well. And you will see that in the case of DAP it's interesting that over that cycle it's a period during which all and all DAP actually margin stepped up, and in the case of Lighting those were the years where Lighting actually, as well, increased its margin over that particular period of time.

So Didier, I don't want to say we are totally bulletproof. It would be nice, but I think that we can look at the past and the whole portfolio, and I'm taking the example of CE, sorry of DAP and Lighting, Medical was in its infancy very much at that time because we were just on the following morning following a lot of M&A and growing on the back of integrating that M&A. But those two PDs certainly during that cycle were resilient.

I think in the case of CE, because then the next question is CE, there look at '07. We've been through that in '07. In '07 we had a very difficult beginning of the year. We were obviously comparing to that fantastic year, '06. And in '07 we had tough time in Connected Displays, but what helped us was our model, was the fact that our net operating capital, depreciation and else is almost minimal. And finally with basically the fact that we had brand license income, we had some IP income. The fact we have outsourced products and the fact, as well, that some of the portfolio, in particular entertainment solutions and I would say peripheral and accessories starts behaving a little bit a la DAP and as part of Consumer Lifestyle will try to make sure the [PDs] spread to those two BUs.

We think that we have some kind of an edge, as well, for Consumer Electronics. I wouldn't call it a bulletproof jacket, but certainly history and models will help us. And of course, the geographic spread, which is something which is probably more obvious in '08 than it was in those years '01 to '04. I think in '01 to '04, I'm looking at Gerard because I was not there at the time, but my sentiment was that our portfolio was much more European centered and US centered. We are looking now at a portfolio on the Consumer businesses which has a stronger presence in emerging markets.

Operator

Thank you. The next question comes from Mr. Jan-Willem Berghuis. Please state your name, company name, followed by your question.

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

Yes, hello, good morning. It's Jan-Willem Berghuis from Kempen. I had a question on the IP income in the Innovation and Emerging Businesses line. Can you tell me what the nature is and whether you had any IP gains in the normal Consumer Electronics business or whether this is a completely different nature of the IP gain?

And then secondly on the same line, on Innovation and Emerging Businesses, what's the guidance for corporate investment in 2008? Will it be close to zero? Because obviously Consumer Healthcare will disappear from that line.

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

Yes. Okay, on IP, yes I can't be much more explicit on the fact that we had extra IP income on indeed the Emerging Innovation line. As I mentioned on an earlier question, it's something we had actually put in our forecast, in our budget, I have to say, as well. And we saw it disappear at the end of Q1reguided probably wrongly, but conservatively and finally ended up delivering on it at the end of Q4. And I answered earlier on, on the nature of that IP income in terms of its difficulty to predict to the quarter if you want to maximize the value.

On the CE side, no, there was nothing special in CE. And I think the CE IP income year-on-year was more or less at level. So if you were to scrutinize the income of the 3.1 margin of CE even though we don't disclose any more to you the IP income part of CE, you wouldn't see anything extraordinary or any significantly different in the mix of margin coming from IP in the '07 numbers versus the '06 numbers.

Now your question on I & E, are you asking me guidance? There are a few elements in there. We will continue to invest, of course, in our incubators as well as in research, and there I send to you in all the elements that we gave on the same day of the analyst day in December where we gave all kind of details on the various programs and that obviously will be there in a sustained manner.

We have still two businesses which we need to take care of with negative returns which are part of the corporate investment portfolio, which are still hurting us. We are looking at taking care of this situation in the course of the first quarter, but I can't be much more precise right now. And finally, indeed, we will transfer out of this line the Home Healthcare business, but there is profit on the side of Lifeline and Health Watch, but there is a few investments on some initiative which basically means that it should have a rather neutral effect on that line as far as that particular transfer to PMS to what is now going to be Healthcare is concerned.

So all-in-all a number; we've guided you on that number in the first quarter of '08; you have the guidance in the document. And in terms of overall number hopefully I would say, depending, of course, on license income, a number which we will always try to keep flat in absolute number in the worst case scenario and progressively reduce over time.

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

Okay, thank you.

Operator

Thank you. Our next question comes from Mr. Gael de Bray. Please state your name, company name followed by your question.

Gael de Bray - *Societe Generale - Analyst*

Hi good morning. This is Gael de Bray from Societe Generale. Thank you very much for taking my questions. The first one is related to your willingness to focus on the integration as from this year, but could you quantify the total amount of synergies from acquisitions that you expect for 2008?

And also you mentioned that you had a very strong innovation pipeline, so could you be a bit more specific on that and give us maybe some examples of the key new products that are coming in into 2008? Thank you.

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

Integration, I cannot, let me answer you in two ways. You will see -- on synergies we have communicated specifically on the synergies of both Genlyte as well as the synergies expected on Respironics. I think we've given you the details. You can almost plot them for the year '08 and I think those synergies have been re-included in a detailed slide for these projects in the particular presentation which is on the website. So they were communicated and they basically are referred to on those slides for Genlyte and Respironics.

The other thing is that we gave you on that same presentation, the expected revenue growth as well as EBITA growth, kind of number coming from the sigma of our acquisition. That is included in two other slides, which are summarizing our M&A over the last two years and a half. That's as well included in the website presentation.

If you want more we can call Alan and we'll give you online and we can -- we'll bring you back to the press release and the particular numbers mentioned on both Genlyte and Respironics.

For innovation we are continuously introducing new products. I don't know how many new products we've introduced in total in 2007, probably, well usually it's in excess of 100. I don't have the specific number; we can probably find it for you if you are interested.

To the specific examples now for 2008 I will take one in professional and one in -- I will take two in professional and one in consumer. On the consumer side I will select the new Oral Healthcare offering at DAP which is coming now in Sensiflex and Sonicare which is coming now in its full leverage.

On the professional side let me take one example in Medical. On Medical I will use the new scanner which is being introduced which has got 256 slices which should come up in the latter part of '08 with a particular suite market, which is in the domain of cardiology. And I will take another example in the domain of professional, and there let me pick up Rebel, which is the new line of products coming from Lumiled, which will be addressing essentially professional channels for, to some extent as well, potentially consumer channel by the way, Lumined and Lighting.

Those are examples of innovation, important innovation for us in the course of 2008.

Gael de Bray - *Societe Generale - Analyst*

Okay, thank you very much.

Operator

Thank you. The next question comes from Mr. Luc Mouzon. Please state your name, company name followed by your question.

Luc Mouzon - *Credit Agricole Asset Management - Analyst*

Yes hi, good morning. It's Luc Mouzon calling from Credit Agricole Asset Management. Just to come back on the cash flow focus that you mentioned at the beginning of the conference. Could you just elaborate a bit on what could be done to improve one notch further the cash generation that sounds to me to be a bit, let's say soft over the past year?

And a second question, could you just confirm that the EUR5 billion buyback program will start very soon and that so far we didn't see anything in the very first week of January? Thank you.

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

Okay, good morning. I think where can we indeed improve on working cap. I think we have elements which are increasing our working cap need which we need and will continue. One is, of course, on the service part of Medical. There, our business, our service business of Medical is growing strongly and our worldwide presence now calls for absolute, perfect execution and available of parts on the geographical basis. So that is something that we will have probably to absolutely sustain.

The other element which has gone unfavorably is, but that is structural, is in the case of Lighting. In particular the consolidation of PLI, which is a business which has delivered actually well beyond our expectations, is coming up one of the -- the one bad news of PLI which is Partners in Lighting or Consumer Lumineds business. It's coming with a higher inventory as a percentage of revenue than the preexisting portfolio we had in Lighting. So I would say that's unfavorable.

Now what are the things we can improve? I believe that we can improve our DSO. I think we have penetrated new markets, in particular in Medical and we need there to basically bring our DSO down. So I would say DSO down in Medical as well as in some of our Consumer businesses and we need to continue to work on inventory. You saw that our inventory is ending the year at 12%; it compares to 10.8% expressed as a percentage of revenue at the end of 2006. Some of this as I mentioned is okay, some of this is something we need to work on and we will have to make progress and I will name the product divisions.

One, some progress at the Medical, in particular in imaging systems and some progress as well at Lighting where beyond the PLI situation I just alluded to, we need to make some progress there as well.

Luc Mouzon - *Credit Agricole Asset Management - Analyst*

Okay, and with regard to your buyback program, when will that be active?

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

Yes, we've been active actually, we are communicating on a weekly basis, so if you go -- we don't do it on a daily basis, if you go to our website you will see, you go to the Investor Relation section. You will see that we are very well engaged into the buyback of the new plan, which has been announced on the 20th of -- we have actually bought already to this date, EUR300,000 worth of shares. And to be even more precise, as you know the plan was announced on the third week of December; we were active I think on January 2. I think as soon as the law was enabling us to move, market I think was open on January 2 and we started trading that very day.

Luc Mouzon - *Credit Agricole Asset Management - Analyst*

Okay, thank you.

Operator

Thank you. The last question comes from Mr. Maurits Heldring. Please state your name, company name followed by your question.

Maurits Heldring - *Landsbanki Kepler - Analyst*

Good morning gentlemen, Maurits Heldring from Landsbanki Kepler. Two questions left, first one what kind of CapEx levels should we expect for '08?

And secondly, could you share with us the growth rate of AVENT last year to see how much the geographical leverage has worked out?

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

Okay I think in terms of the CapEx I'm not going to go into detail, you can pretty much use the number of last year. You show that it increased in Medical, it was not an increase at Medical, it was a change of accounting principle for some of the software which we are now capitalizing. So all-in-all with that new accounting rule CapEx should be pretty much at level.

Actually on the AVENT questions, AVENT is a key part of Health and Wellness; that was up 17% for the quarter. And to your particular question on the leverage of the channels, I think AVENT is now absolutely starting to get traction. And the particular fourth quarter of '08 -- sorry '07 that particular quarter was probably the best quarter we've had in AVENT. So AVENT is gradually gaining traction to be absolutely specific to that part of your questions. With Q4 '07 being the best quarter we've had ever since we acquired. So we are gradually increasing and leveraging the geographic presence without, which was the name of the game, compromising the high margin of that business in what is a consumer business.

Maurits Heldring - *Landsbanki Kepler - Analyst*

Okay thank you. Maybe shortly going back to CapEx, the figure that you refer to is including the acquisitions you've made?

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

No, I think, of course we will come back to you. This is including the portfolio we have, but that's not including the CapEx to come from Genlyte and Respironcs. But once, as mentioned in the press release, we will have to come back once we've digested those projects. We said we would come back to you sometime in the first half to re-guide you on that, because you have to realize that none of those studies are closed so we have to come back to you on integration costs, cash and non-cash. We have to come back to you on things including CapEx as well and we will do that in the course of the first half.

Maurits Heldring - *Landsbanki Kepler - Analyst*

Okay, thanks a lot.

Operator

Thank you. Mr. Kleisterlee, there are no further questions at this time. Please continue with any other points you wish to raise.

Gerard Kleisterlee - *Royal Philips Electronics - President & CEO*

Thank you very much gentlemen for your interest and your questions and once again I think that the fourth quarter ended the year 2007 with a strong performance in slightly adverse circumstances. It think the quarter itself already gives evidence to the robustness of our product portfolio and our business model and as such we have achieved a good starting point for 2008. And we know the circumstances will be more difficult, but we look forward with confidence and some optimism that 2008 will be the first step that we'll set on the road towards the achievement of our Vision 2010 goals.

Operator

Thank you. Ladies and gentlemen this concludes the Royal Philips Electronics annual results 2007 conference call. Thank you for participating, you may now disconnect.
