FINAL TRANSCRIPT

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PRESENTATION

Operator

Welcome to the Royal Philips Electronics third quarter results 2007 conference call on Monday October 15, 2007. 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 - EVP & CFO*

Thank you. Ladies and gentlemen let me first welcome you to this conference call for the third quarter results of 2007 for Royal Philips Electronics. As usual I will make a few introductory remarks and then will open up the call to your questions.

The third quarter was another encouraging step towards achieving our objectives for the year and strengthening ourselves for our Vision 2010. The EBITA in the quarter was EUR438 million or 6.7% of sales, and this compares to 5.3% one year ago and after excluding the product liability related charge that we had. This increase is another good step towards achieving our target of above 7.5% for this year.

Comparable sales growth was a robust 7% for the quarter. DAP took prime position with 20% and CE recovered to 8% as we had predicted. We were particularly pleased with our growth across all key emerging markets.

In Medical Systems the comparable growth was 3% with strong growth outside the United States and the non-imaging business within the United States. Equipment order intake showed a 3% increase compared to one year ago, which again was strong outside the US and in the non-imaging businesses within the United States. We were negatively impacted by our US Imaging Systems business mainly as result of the DRA impact. The EBITA percentage declined compared to one year ago and this was due to Imaging Systems, but more specifically in CT. If we were to exclude CT then the EBITA percentage would have increased by 70 basis points.

As we mentioned a few months ago, we are currently reviewing our options for our shareholding in MedQuist and will inform you about this as soon as possible.

In DAP the excellent quarter has given us a 20% comparable growth following 17% in Q1 and 14% in the second quarter. This very strong growth came in virtually all product groups and geographical regions. Once again we are benefiting from our investment in innovation, emerging markets and the brand. We continue to foresee good growth for DAP however, the comparisons start to get tougher. EBITA of 18.8% in the quarter was strong and mainly a function of the higher sales and the management of our cost.

Sales in Consumer Electronics, on a comparable basis, increased by 8% in line with our predictions. The growth came in all the individual businesses and with good growth in all key emerging markets. The EBITA margin at 1.4% was a little higher than one year ago.

We have seen improvements in all our businesses except Connected Display where margin pressure is ongoing, particularly in North America. We continue to see the benefits of our business model which has kept the net operating capital at a minimal level.

The Lighting sales growth was 2% being impacted by the contracting UHP market and our exit from LCD backlighting. Excluding these two areas the sales growth would have been 7%, being driven by the global demand for energy efficient lighting solutions and emerging markets. The Lighting EBITA percentage was higher than the third quarter of '06, even after allowing for items that we could consider of a one-off nature.

The results for Innovation and Emerging businesses was in line with our expectations.

In Group Management and Services, we see the impact of our cost reductions actions that we announced almost one year ago. The brand expenditure, at EUR26 million, was a fraction lower than what we originally planned. We will complete our of EUR75 million euro cost reduction program this year, which will require one-off cost of approximately EUR10 millions to be entered in the fourth quarter of this year.

In our tax figure, there is a non-cash charge of EUR91 million, resulting from the reduction of the corporate tax rate in Germany, which lowered the value of our tax loss claims. This will give us a small positive impact on our global tax rate in the future.

During the quarter, we consumed EUR1.1 billion of cash, but this was for the purchase of Color Kinetics for EUR515 million euros, and EUR789 million for the purchase of our own shares. We didn't consume any cash for working capital purposes.

The inventory percentage of 14.1% is 1.4 percentage points higher than one year ago. This is partly due to the impact of acquisition. We have no special concerns about our inventory position.

Results relating to equity-accounted investees have significantly improved, due to the improved performance of LG.Philips-LCD. There are virtually no other items in this area of our results. I reiterate our intention to have leveraged balance sheet at the end of 2009, consistent with our rating objectives. As you saw a few days ago, we have continued to reduce our stakes, in this case, LG.Philips-LCD, and announced an extension to our buyback at the particular time, details of which we will give you with the publication of our fourth quarter results on January 21.

We continue to look for acquisition in the areas that we have designated, that would add value in line with our guiding principles. We once again confirm our sales growth target of an annual average comparable growth of 5% to 6% and an EBITA of above 7.5% for 2007.

Let me now open the call for 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 while participants register for a question.

Thank you, our first question comes from Mr. Simon Smith of Citigroup. Please go ahead sir.

Simon Smith - *Citigroup - Analyst*

Hi, yes; I had a couple of questions. One was on the Medical side and one was on the comments with regard to the next step in the capital return program.

In terms of Medical, obviously, we've known for a while there was toughness in the market. I'm always slightly curious to know why, given ample opportunity to lower guidance through the year on the lower trends that you had in terms of margin, why you waited to this moment to accept that the margins would come in that much lower. Has there been a very sharp deterioration in the market which caught you as a surprise? And leading on from that, the impact that you've had this year, what would you now move your guidance down to, and how would that affect the guidance that you've been talking about in 2008?

In terms of the capital return, I guess my question was really along the lines of, you phrase it as being the next step in the program of capital return. Would I be right in thinking that that's indicating something more beyond just announcing another share buyback program?

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

Okay. To your first questions, I think in terms of guidance on Medical, I think we said, on the back of the DRA, we said at the end of Q1, we talked about one point. We said the exposure is 1 point of growth; I think on the back of the Q2 revenue, we talked about 1.5 points. I think what we are saying in essence for this -- at the end of this quarter, is that it could be 2 points. I think it's been progressive.

When you look, really, at the detail of the numbers which we have, basically, what you find is that we are doing pretty strongly out of the US, and that is true across modalities. And we are doing in the US, well in the monitoring as well as across some technologies. And I think that I'm actually offset, to a large extent, the impact of the DRA. And to be specific, I think if you ask me now for the guidance on revenue, I would say that the 1.5 percentage point that I talked about at the end of Q2 is probably now like -- more like 2 points.

Have we've seen a deterioration in the third quarter? I would say that late in the third quarter we saw probably something a bit more, I would say, strong than what we have anticipated on CT. And there when you really drill down, you are a little bit split between, is it basically DRA, or is it the fact that in the particular territory of CT a new technology is expected, at the RSNA in a few weeks from now.

So I would say it's been progressive. The 2 points of lower progression of the growth is something which has come almost 0.5 point by 0.5 point. And to your point, yes, there have been maybe something a bit worse than we planned late in the third quarter on CT.

Simon Smith - *Citigroup - Analyst*

Could you maybe expand that into the discussion of margin?

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

In terms of margin, basically, the guidance was 14 plus, and in terms of margin for the quarter we absolutely confirm the 7.5 for Philips, and as far as Medical is concerned, we could have versus the guidance, up to 1 point. Up to 1 point. It's hard to be -- I think we could do better than that, but at this point of time, I think up to 1 point of risk for Medical.

Simon Smith - *Citigroup - Analyst*

And obviously, I think in 2008, out of the back of the capital markets day we'd had the expectation of those margins rising probably up to the 15% level. Obviously, now, if you're going to be 13% as a run rate, would that be an overly optimistic step up now?

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

No, I think we -- I don't want to guide you right now on next year, but I think in terms of progress, first of all, we expect a strong fourth quarter. I think what I want to make clear is that incoming orders year-to-date are at 4.3%, so I think that's something to keep in mind. We believe that we are doing better than the competition. We believe as well that there will be innovation coming out of the RSNA.

And the other thing to keep in mind is that we are making progress not only in the non-imaging sale -- orders, I'm sorry, in the US, but we are making progress as well out of North America. So I wouldn't change what we've said in terms of trend for 2008.

Simon Smith - *Citigroup - Analyst*

Okay. Capital program?

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

Yes. To your second question, well, I think what I can say is actually in the press release. What we mean is what we've said. We have announced, as you saw just literally a few days ago, and until we could make that move we were not too sure because we wanted absolutely to optimize, and we were capable of selling down to 19.9% of LPL. But that took place very late, as you saw last week. It was a very successful transaction, and I think you don't read more than what we've said. I think the next stage in capital reallocation, two shareholders will be announced at the end of Q4. We normally do that once a year, and I think the next stage will take place at the end of Q4. Don't read more than what is actually in the release there.

Simon Smith - *Citigroup - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Mr. Nicolas Gaudois of UBS. Please go ahead, sir.

Nicolas Gaudois - *UBS - Analyst*

Yes. Hi, good morning, Pierre-Jean. My first question will be back on Medical, just to clarify your -- when you talk about up to 2 percentage point of impact for DRA, does this effectively imply that your guidance for the full year is closer to 4% [of planned growth] versus the 6% initial?

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

Yesterday think that's up to 2 point. That's what I -- yes, Nicolas, that's correct.

Nicolas Gaudois - *UBS - Analyst*

Okay. Fair enough. And just as a follow-up on Medical as well. For new product introduction you talked early on about having a new PET/CT platform before year end. Is this still on track and could this have an impact on reinvigorating the growth for rest of the year?

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

No I think I can't, Nicolas, I think it's -- I can't comment on anything; I want to keep all disclosure for the benefit of the RSNA. But I do reiterate that into the question what happens next year, there will be innovation at the RSNA which gives us confidence that we will be able indeed to resume growth. I think I want to leave it at that for the particular time, Nicolas, being so close to the RSNA.

Nicolas Gaudois - *UBS - Analyst*

That's fine, that's fair enough. Thank you very much.

Operator

Thank you. Our next question comes from Mr. Simon Schafer of Goldman Sachs. Please go ahead sir.

Simon Schafer - *Goldman Sachs - Analyst*

Yes hi thanks very much. Just a question rather than Medical actually, on the domestic appliances side, clearly the flipside in terms of margin execution. Now given what you've just said with the 2 point impact for Medical margins obviously to get to your overall corporate targets, how much upside should we be assuming in domestic appliances then on a run rate basis, in terms of margin?

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

Sorry, no, no just a correction. I didn't say 2 points of margin on Medical, I said 2 points of revenue growth.

Simon Schafer - *Goldman Sachs - Analyst*

Right.

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

And up to 1 point of margin, so just to be absolutely specific.

Simon Schafer - *Goldman Sachs - Analyst*

Understood.

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

So yes, I think the 7.5% EBITA guidance is confirmed and I think in case we do not deliver on Medical, we will have to catch up here and there in the rest of the portfolio. And certainly DAP is one of the candidates, yes, I think. I don't want to guide you more because there you have a minimum guidance on the margin, but DAP is certainly one of the product divisions where we could do a little bit better than the guidance in terms of coming up to the 7.5% all in for Philips, that's for sure.

Simon Schafer - *Goldman Sachs - Analyst*

Understood. And then, just on the consumer electronic segment, a good amount of revenue upside, just wondering where that revenue upside may have come from, clearly not TVs? So where was the upside from in the quarter on the revenue line?

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

No actually it came from TV as well. We made progress everywhere including in television. What I said in the call, in the introduction and I think it's mentioned in the release as well, was that there was some pricing pressure on television, in particular in North America, but the growth was there. We had double digit, or shy of double digit growth across the various business units of consumer electronics. So I don't want you to read that television was a poor performer in terms of revenue. It did deliver growth in the third quarter, as expected.

Simon Schafer - *Goldman Sachs - Analyst*

Okay thanks. And my last question just on MedQuist, you said potentially reviewing your shareholding. What would be the options for you and what type of timelines should we be looking at for that?

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

I think, in terms of -- there is nothing new. I think what is new is that they are now current, fully current with their filing with the ATC. I think that's a new piece of news where not only they're filed '06, but the first two quarters of '07 have now been filed. So compared to where we were at the end of Q2, but the new piece of news is that their accounts are fully current. If you look at our press release of Q2, we mention about looking at four options; we've just renew that particular comment on the back of what is now fully current accounts. And that is a new piece of news on that third quarter.

Simon Schafer - *Goldman Sachs - Analyst*

Right. Thanks very much.

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

All options are open.

Simon Schafer - *Goldman Sachs - Analyst*

Thanks Pierre-Jean.

Operator

As a reminder, would you please limit yourselves to one question with a maximum of one follow-up as this will give more people the opportunity to ask questions. Thank you. Our next question comes from Mr. Julian Mitchell of Credit Suisse. Please go ahead.

Julian Mitchell - *Credit Suisse - Analyst*

Yes thanks. The first question was, again, just on Medical because in year-to-date, you've done around about an 11% EBITA margin; as you said, for next year you're looking at 15% to 16%. So just in terms of the bridge between the two, are you planning any sort of cost reduction activities in that division or are you relying on price and volume to increase significantly over the next 12 months or so?

And then secondly, just within DAP, there was some sense, I thought, after the Q2 numbers, that in Q3 you'd see a significant boost in SG&A expenses that might limit your margin expansion; obviously that hasn't happened. Should we expect a big SG&A boost in Q4, or is it just that the revenue growth is so strong that it will offset that? Thank you.

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

Okay let's take them one by one. On Medical, you are correct, I think the year to date Medical EBITA margin is at 10.6%. Now if you look at the pattern of our margin across quarters, you will see that -- and it's not always recognized, but the seasonality of Medical is quite strong. We always have a very strong fourth quarter; we are expecting a strong fourth quarter again this year. I would say, probably particularly strong this year because obviously we have a bit of a back ended situation this year.

And the explanation to the bridge -- to the numbers you mentioned for next year comes from the fact that we are very back ended. And this year, as well as probably next year, even though we try to avoid that, but that's a difficult thing to try to push forward in the year the deliveries of imaging equipment, but you will see that consistently we have a very strong fourth quarter, which helps you bridge to the kind of numbers you talked about.

Now to your question on cost cutting. We always have plans, and the plans that we have disclosed to you for this year will continue next year and, for reference purposes those plans are, reduction of IT expenses, secondly leveraging of, or selling expenses with a structure we've put in place, in particular in Asia. And one other third driver is, of course, the increase of the low cost sourcing of both components and subassemblies in order to actually help our cost of goods sold. And those initiatives are not one year initiative; they will help us this year and they will continue to help us next year.

Now to your question on DAP. Yes, we had guided you on an increase of selling expenses below the line in the fourth quarter and that will indeed take place, as indeed, if you remember last year at the same product, I'm sure. We are expecting an increase of the selling expenses, and if you want to compare basically with last year, it should be a notch above what we actually experienced last year. So no change in our pattern and no change in our business models in DAP. We want, of course, the growth to continue there, so there is no reason to change our business model there.

Julian Mitchell - *Credit Suisse - Analyst*

Great thanks.

Operator

Thank you. The next question comes from Mr. Robert Sanders of Dresdner Kleinwort. As a reminder, please limit yourselves to one question.

Robert Sanders - *Dresdner Kleinwort - Analyst*

Yes, hi guys. Just was wondering about the introduction of the Luxeon Rebel in Lighting in Q4. I was just wondering if that was going to lead to an uptick in margin in the fourth quarter?

And then finally, the second question is just on RSNA. You said you're launching a lot of new products like portable ultrasound etc. Just wondering if any of those are going to be contributing to this year's sales, or is that more about next year's sales?

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

Okay. I think to your first question, Rebel is absolutely there. It has actually been a bit late in terms of availability and orders consequences, but we've seen a clear pattern being established between actually July and September, and in September, it's starting having an impact. And yes, I think it will certainly contribute in the course -- on the backlog that we have on Rebel, it will contribute to the margin of Lighting in the fourth quarter for Lighting to make its numbers. So Rebel starts being a player starting Q4 absolutely.

Your next question is on RSNA. Well RSNA I am mentioning it because, of course, I want to send some signal for the growth next year of Medical, but I'm really reluctant to say much more. We are very disciplined not to talk ahead of it in terms of specifics. Will that have an impact on the revenue of this year? I don't think so. I think the revenue of this year is largely happening out of the orders that we've done this year combined with the strong backlog that we currently have. So I would say RSNA impact is for next year.

Robert Sanders - *Dresdner Kleinwort - Analyst*

Okay thanks a lot.

Operator

Thank you. Our next question comes from Mr. Andreas Willi of JP Morgan. Please ensure you limit yourself to one question.

Andreas Willi - *JP Morgan - Analyst*

My question is also on Medical in terms of the pricing in the market. You talked about a negative mix effect as the hospital where the customers trade down due to the more difficult market. Could you also talk about the pricing environment? Have you seen less discipline there from your competitors to -- maybe in an effort to shift some volumes this year?

And my follow-up question then would be on Consumer Electronics where you talked about the good top line outlook. You're not giving divisional guidance any more, but are you still on track or the 3% EBITA margin in Consumer Electronics despite the margin pressure in the US TV business?

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

Yes, I think the reference to the pricing pressure it's really a reference to a mix pressure in CT. I think it's specific to that particular modality and there, as I just mention on the first question, it's hard to make the distinction between customers wanting to come down in the mix on the back of the DRA. And, of course, a customer expecting what comes up in terms of new technologies post the 64 slices that we're introduced in '05 on the back of the -- as we've said in the announcement at the RSNA.

So that modality there was a mix pressure, as mentioned we translated into a margin pressure. As far as the other modality are concerned, I can't relate to any lack of discipline. We believe, and I let you judge that by yourself from the presentation made by competition in the last couple of days, we believe that we're doing better than competition. We believe that we are gaining share. Basically I'm not understanding that this is being done at the expense of margin and discipline in pricing. I think that I would like to keep it on the particular subject of CT.

To your question on consumer electronics, you are correct. We're not guiding for next year by product division which will now be called sector, but we certainly have no intention to change the underlying model including in Consumer Electronics. And I think that the situation, the pressure on Connected Display, which is being referred to in the introduction of this call as well as in the release, we have actually to offset it with the performance of the other BUs whether it is Entertainment Solution, whether it is Home Networks or whether it is Peripheral and Accessories. As we had actually I think the opportunity to discuss when we explain to you the strategy behind the consumer lifestyle territory and the halo effect of the DAP models on some of the BUs of Consumer Electronics.

Andreas Willi - *JP Morgan - Analyst*

So you are on track to also meet the 3% EBITA margin in Consumer Electronics this year?

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

No, no, absolutely. There is no change there.

Operator

Thank you. Our next question comes from Mr. Jan Willem Berghuis of Kempen. Please ensure you limit yourself to one question.

Jan Willem Berghuis - *Kempen - Analyst*

Yes, good morning. My question was on CT again. You mentioned in the press release that without CT you would not have a decline of 70 base points, but actually an increase of 80 base points I think. Obviously if you sell less machines there is some utilization rate effects. But is there also a cost effect related maybe to the introduction of the new machines or any other effect on the cost side of the equation because the impact of this CT margin pressure is quite significant?

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

Yes, well I think a couple of things, on the -- we're talking margin now specifically for Q3. Besides CT we had a couple of issues related to supply, I think which are of a lower importance. We had on the X-Ray side a couple of issues on supply. So I think -- I don't want to make it completely and strictly a CT issue; some of the elements which impacted our margin in Q3 we will recover in Q4. So let's -- I wouldn't want that the whole issue of Q3 is made strictly and solely CT.

Now as far as introduction of new CT equipment is concerned. I think we've been in CT for some time and I'm expecting that if we were to announce new products on the back on the RSNA we would be able to do that in an efficient manner without any loss of altitude in the early days of the introduction of those products.

And in CTs one of our strength, it has suffered on the back of the DRA in the last couple of quarters, as well as on the back of technologies which is the 64 slices which was introduced two years ago. And of course life goes on and new things will have to be introduced and will have to be done in a professional manner. And I think that's what we're counting on.

Jan Willem Berghuis - *Kempen - Analyst*

Okay, thank you.

Operator

Thank you, our next question comes from Mr. [Alex Sirler] of Merrill Lynch. Please ensure you limit yourself to one question.

Alex Sirler - *Merrill Lynch - Analyst*

Good morning, just one question on Medical. The question is on -- you've had about three quarters or so of looking at behavior of your customers in relation to the United States and in relation to this Deficit Reduction Act and its impact. What is your gut feeling, say, for 2008? Would you expect the demand to pick up as you annualize the impact of the Deficit Reduction Act i.e. some of the purchases were postponed and they will come back? Or, will we continue to see this negative price mix where hospitals are simply trying to keep their profitability? Therefore for 2008 you wouldn't expect a pick-up in volume, but rather just a straight through continuing of sales as it goes now with hospitals looking to go down to lower value add products.

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

Okay, just to go back to the DRA for one second. I think the DRA is essentially private centres and clinics, and so-called private hospitals; it's not really a hospital thing. I mean in terms of modalities as far as the portfolio of Philips is concerned, it's essentially just for the record on CT, on MR and on what we call nuclear medicine. I think those are the territories which are impacted and that's what we have to talk about.

So as far as the US market is concerned, I think that we have seen good performance, actually better than planned performance in monitoring and ultrasound. So that is clearly helping us, and we expect that to continue next year. As far as basically X-Ray, we expect the market as well, which is not as I mentioned impacted by the DRA, to progress next year.

Now for the particular DRA exposed territory, we've been there before; it has normally lasted quarters. It's never really been something which has lasted for years, but I will be cautious because until such time we really see it bouncing back it's a bit hard to make comments. I think at the end of Q4 if, hopefully, we can see the market reaction on the back of RSNA introduction, maybe that would be a good time to do a bit more of an update on the, I would say, budget reduction deficit portion of the market which is exposed to that. I think it's probably a bit early to say that today.

There are a lot of discussion which are currently going; some of them are positive, some of them are negative. So it's fluid and I think we need one more quarter to see what could be the impact on next year. But the important thing though is that there will be innovation; as I said ultrasound and monitoring are doing better. Some of the imaging modalities are not exposed and we have to see what happens. And, of course, the rest of the world for us are doing well.

Alex Sirler - *Merrill Lynch - Analyst*

Maybe then the follow-up question on the RSNA impact. Given that those will probably be a premium product launches, are you saying that you expect the market still to buy those products, despite some of the negative price mix in this CT segment we see and the DRA year-to-date?

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

Well I think in terms of CT the market basically is spread; it's really segmented. You have customers who are clearly interested in [iron] products, so they will feel that given CT is a way to attract customers with their business, we will feel that or them it's important to have the latest technology, and that portion of the market is still there. For the customer for whom obviously it's less important and who basically are positioned in a part of the segment which is less technology sensitive, there is an interest more than normally at this point of time. In that period of uncertainty there is probably an increased interest for the lower end of the mix.

But we have to wait I think as I just mentioned, we have to wait until the end of Q4 to see the impact of technology and to see where we will be with DRA at the end of Q4.

Alex Sirler - *Merrill Lynch - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Mr. Luc Mouzon of Exane BNP Paribas. Please go ahead.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Yes, good afternoon, Pierre-Jean. Just a question with regards to the cash flow trend. It's about the second consecutive quarter that we had a bit of negative figures with regard to working capital. And I just wondering going forward in the fourth quarter as we should get the normal reduction, especially on the inventory side. And if you could just elaborate a bit on how the cash flow from operation is likely to move over the fourth quarter. Thanks.

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

There is no change in our cash flow pattern. If you remember, last year the Q3 numbers were actually a little bit polluted by the impact of the transaction on Semiconductor, so we -- those numbers were corrected actually, in the closing working capital and cash flow statements at the end of Q4. So if you actually extract the elements on that line which related to the Semiconductor transaction, as I mentioned in the opening to the call, there was no consumption of working cap in the third quarter, despite the 7% growth. So no change to the working capital pattern, and no change to the pattern of cash generation, with a lot of it happening in Q4. And again on the particular subject of Q3, you have to ignore the amounts which was actually put in our Q3 statement on the back of the Semiconductor transaction.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Yes, and one follow up, still about the cash flow. As we've seen that the treasury, or the share buyback is about 1.5 from January to September, could we anticipate the remaining parts to be done on the coming months, or would you consider expanding that share buyback program?

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

Yes, I think on the share buyback you have to split it in two, to be absolutely specific. We have a bit more than EUR815 million which is part of the initial EUR1.6 billion on the so-called second trading line. We are expecting more mileage, probably a couple of hundred million and more. We are pushing hard on that particular one to get as close as possible to the EUR1.6 billion by year end, so you will see more activity there.

As far -- what we've done, we announced with the press release of Q2, is we launched another avenue of buyback, which has amounted to about EUR450 million in the course of the third quarter, and there that was buying shares to actually extend the hedging mechanism on our long term incentive plans. So this is adding up indeed, to the amount that you just mentioned. So on the hedging side, you won't see more activity in the rest of this year. On the second trading line, you will see a little bit more on the second trading line still to take place in the fourth quarter.

Luc Mouzon - *Exane BNP Paribas - Analyst*

Okay, thank you.

Operator

Thank you. The next question comes from Mr. Didier Scemama of ABN Amro. Please go ahead.

Didier Scemama - *ABN Amro - Analyst*

Good morning. Pierre-Jean, it's Didier from ABN Amro. A quick question on Medical if I may, and just a quick follow up on CE. On Medical I am just a bit surprised by in fact the decline in margins, given that you said that your exposure to the US CT market that was impacted by the DRA was relatively limited. So maybe can you expand quickly on that? I know you touched on it, but if can you expand a little bit on that? And, related to the Medical actually, can you talk about the backlog at the end of Q3 versus Q2, the direction it has taken?

And on the CE side, given the fantastic performance you had in the revenue, are you a bit disappointed or not maybe, by the margin leverage?

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

Okay. That was on CE, your last question no?

Didier Scemama - *ABN Amro - Analyst*

Yes.

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

Okay. So, to go back to Medical, yes, actually we had a shortage versus expectation; we had a shortage of revenue for the reason you mentioned. And basically on the margin, we were impacted by the reduction of the mix. The other thing which impacted us, as I mentioned, was that we had beyond the strict DRA related situation, we had a few logistic issues on X-Ray and some issue related as well to customer readiness.

So we didn't have all the revenue we were counting on in Q3, and that actually related to the impact on the margin. One more thing you should not ignore, is that we had at MedQuist as well, a reduction of the revenue there of 9%, which had a bit of an impact as well on the margin, on that particular one. The combination of that led to the impact on the margin that we've just discussed.

On the CE --

Didier Scemama - *ABN Amro - Analyst*

Sorry, can you just talk about the backlog in Q3 please?

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

Yes, the backlog in Q3. If you look at our incoming orders for the quarter, 3%, and that's pretty much in line with the growth of the revenue, actually quasi-comparable to the growth of the revenue for the quarter, so the backlog more or less stayed intact. And we are starting this fourth quarter with a strong backlog, which is why we've guided you on -- we've guided you on the strong fourth quarter for Medical.

Didier Scemama - *ABN Amro - Analyst*

Okay, so the backlog was flat Q3 versus Q2, but orders were up year-over-year?

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

Yes, I think if you look at orders, you've seen that we are at the 3% for the quarter, but we are year-to-date, at 4.3%, because you remember that we had a particularly strong second quarter at 12%. So we are actually finishing this third quarter with a strong backlog to address the fourth quarter.

Didier Scemama - *ABN Amro - Analyst*

Okay, and the margin leverage in CE?

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

The margin leverage in CE as you know, it's in that particular case, it's a game of model where we want to shoot for the 3% for the year, and we don't basically try to do more than that. We try to deliver consistently the 3%. So was I disappointed by the leverage? No, especially if you consider that there was some pricing pressure on [certainly] on Connected Display in North America. So I would say all in all for CE it was a good quarter.

I think the interesting thing is, in CE, what we have alluded to in previous calls and on the back of the Vision 2010 communication, we are seeing some of the BUs of Consumer Electronics again having an halo effect from the DAP model, and we are seeing some progress there. So I think all in all the 3% stands, but maybe with some nice progression in some of the other BUs.

Didier Scemama - *ABN Amro - Analyst*

Okay, thanks very much.

Operator

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

Timm Schultze-Melander - *Bear Stearns - Analyst*

Hi, morning. Two questions if I may? The first just to follow up on what you've just talked about in DAP. You talked about a halo affect from DAP to Consumer Electronics. Have you got any examples that you can share with us, because as you say, the margin still remains pretty flat and the pricing pressure is still there, so -- ?

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

Yes, I think one element of the comparison would certainly be Peripheral Accessories. I think we don't like to talk explicitly about margin down to the BU level; that's something we don't do, and I will not do it around it around this phone. But I can tell you that margins there are above the average of the Consumer Electronics mix.

And the second thing is, in terms of model, you're closer to a -- you are very much closer to a DAP model. Why? Because the shelf life of the products is longer. It would be longer than the traditional Connected Display shelf life which there is counted in months, or maybe semester if you are lucky. Peripheral Accessories, you go with something which is beyond that particular horizon, and the category management, the product category management as well, and I would say the design are extremely important elements of the model. And those are three criteria which you find in the DAP model. So that's what I mean by saying a halo affect from the DAP model.

Timm Schultze-Melander - *Bear Stearns - Analyst*

Okay, but you're not suggesting that it applies to the sort of two thirds of revenues that is Connected Displays?

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

I think in Connected Displays, as we've said in the past, we've only recently introduced a Philips design to the display of our Connected Display. So there I believe that the full impact of, for instance, bringing design is something which is still very new in Connected Display, and the impact of that will have to come in the future. So I would say this is probably the business unit which was the last in the line in introducing a design. As far as the shelf life, the nature of Connected Display is that in the strict Consumer Electronics industry, their shelf life is, as you know, quite short, and that's not something which is changing.

Timm Schultze-Melander - *Bear Stearns - Analyst*

Okay, and the follow up would be, just on Intermagnetics. Since you acquired that business in November of last year, could you just talk about what you've seen in terms of external sales, and I'm guessing most specifically over the last couple of quarters, what have you been seeing there?

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

No, I think we've discussed it at the end of the last quarter. MR is of course one of the modalities which is impacted by the -- it's one of the so called heavy iron modality. But I think what's interesting on MR is our market share and the progress we make and we start seeing that we are regaining a little bit of mileage on that particular modality. I think it's a modality where we have stabilized the situation, we were, I would say, defensive until last year and the bringing of Intermagnetics is bringing us a new strength with impact which is still to come. So I would say that we are feeling better about MR on the back of Intermagnetics post the acquisition of Intermagnetics at the end of last year.

Timm Schultze-Melander - *Bear Stearns - Analyst*

Great thank you.

Operator

Thank you. Our next question comes from Mr. Johannes Ries of Cominvest. Please go ahead sir.

Johannes Ries - *Cominvest - Analyst*

Yes good morning, maybe one question only to the currency impact in Q3. You have seen maybe even in your different business units and maybe what you are forecasting for Q4? How much maybe this has changed compared to the situation at the beginning of the year, therefore is it positive, negative?

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

Yes I think when I was squeezed on what's happening with the margin of Medical, that's one reason I didn't use, and maybe I should use it because it's real. We are, in terms of translation exposure, we have some exposure, we do make money in North America obviously in Medical and there we are impacted on the translation side. I wouldn't tell you exactly how much because if I do you could almost immediately calculate our profit in North America in Medical. But we are -- we've got some exposure there and it has played a role in the EBITA margin of Q3 and probably will continue a like-for-like comparison in Q4. That's on the translation exposure.

On the transaction exposure which is, of course, the one to follow, there we continue to have between, I would say, the nature of our cost in terms of currency mix as well as combined with our hedging strategies, I think we have largely a balanced situation for the transaction exposure point of view.

Johannes Ries - *Cominvest - Analyst*

For the whole company, not only for Medical?

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

For the overall yes, for the overall company absolutely, not only from Medical, that is correct.

Johannes Ries - *Cominvest - Analyst*

Okay and in Consumer Electronics it's positive which the dollar is weak or not?

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

Well I think on Consumer Electronics, where we are punished is essentially on the revenue growth because as even though we convert dollars -- even though we actually convert, I'm sorry, dollars into euros and there we take a beating, it is actually an industry which is really driven by the difference between Asian currency and the dollar. And I would say that we take probably more of a beating than perceived on the revenue side. But on the margin side, and I'm talking there comparable growth, on the margin side as much as we can, we try to have our cost located at the same territories where we have our revenue, given that most of our fixed costs are outsourced. We try to locate them as close as we can to the geography of our revenue generation.

Johannes Ries - *Cominvest - Analyst*

Okay, super, thanks a lot.

Operator

Thank you. Our next question comes from Mr. Marcel van de Hoef of Bloomberg. Please go ahead.

Marcel van de Hoef - *Bloomberg - Media*

Yes good morning. Just one question for clarification. The EBITA margin of the Medical unit in 2007, will it be around 13%?

And secondly, do you expect to finish the EUR1.6 billion share buyback to the second trading line or did I understand that there is also other ways to get to that amount?

And will your Medical performance affect the Group sales growth forecast? Will it be between 5% and 6% this year, or will there be a change there?

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

Okay let me take them. So your first question is the guidance on the Medical. I mention in the call that we could be up to 1 point short, up to 1 point short of the guidance on the EBITA margin for Medical. I think that is your answer there.

Your second question relates to the buyback. Yes I think we have a EUR1.6 billion which is using the so-called second trading line. There we are at EUR850 million plus with still more action to come, and we have combined that with another avenue, which was announced in the course of Q3, which is a change in the hedging approach to our long term incentive plans, and that has led to an additional EUR450 million of buyback which has already taken place in the course of Q3. So if you combine the Second Trading Line and the change of hedging approach to LTI, to excuse me, to long term incentive, yes, we might be in excess of EUR1.6 billion if you combine those two, yes.

In the -- your last question is on the guidance on the revenue growth. As you know there we don't have a guidance per year, we have an average 5% to 6% growth and we stick to that.

Marcel van de Hoef - *Bloomberg - Media*

One short follow-up question. So you said you might exceed the EUR1.6 billion share buyback program because you also used the other revenue?

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

No I'm saying that the EUR1.6 billion which was announced was using one particular vehicle which is called the STL. There we're not quite there and we're making progress; right now we are slightly north of EUR850 million. But what I'm saying is that in addition to that program we announced that we were going to increase our hedging via shares owned by Philips and accordingly bought on the market, so increase our hedging of our long term incentive programs. And that led to an additional EUR450 million worth of Philips' shares which were acquired in the course of Q3.

Marcel van de Hoef - *Bloomberg - Media*

But does that mean you still have EUR750 million to go on the second trading line or will you take the EUR450 million off that amount?

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

No that means that we will continue to work to get as close as we can get to the EUR1.6 billion. Those are two different vehicles.

Marcel van de Hoef - *Bloomberg - Media*

Thanks.

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

On the second trading line.

Operator

(OPERATOR INSTRUCTIONS) Thank you. The next question comes from Mr. Harm Luttikhedde of Betten Financial News. Please go ahead.

Harm Luttikhedde - *Betten Financial News - Media*

Yes hi. A question about the new products. How are they picking up?

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

Basically in -- I think if you look -- you have to look at the, sorry product division by product division. If you look at DAP the 20% growth of this quarter is clearly something which is showing that innovation works. To give you three examples, in DAP we have a new line of shavers which is called Arcitec which is now being introduced just about everywhere. We have a new line of healthy cooking appliances which is being introduced right now, and we have new oral healthcare electric power toothbrushes which are being introduced as well in the market where we propose that product. So that's called DAP and that's all doing extremely well.

In the case of Lighting we have the products which are basically so-called green products which are low energy consumption products. A lot of it around the products which are innovative, that has grown by 17% in the course of the third quarter, so we have good growth there. In Consumer Electronics you could see the negative growth of the Q2 has transformed into a 8% positive growth in that third quarter. We have new products across all product categories and I think that certainly shows. IF I have to designate one area, which is a brand new flat panel LCD television, certainly is helping us to give one example in the domain of Consumer Electronics.

And in Medical beside the issue of DRA, we have innovation which we introduced along the year which are helping us to have growth which is certainly above competition of this quarter, and which are helping us as well across modality. And as I said weighting for whatever will be announced at the RSNA in a few weeks to come.

Harm Luttikhedde - *Betten Financial News - Media*

Yes, but the area you mentioned and the shavers, have they made a contribution yet in the third quarter?

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

Yes they have started -- the shavers have started contributing, will certainly contribute even more in Q4. But shavers, cooking appliances definitely yes, contributed. As far as innovation is concerned there were other factors to that growth, but that's certainly one of the contributor to that growth in Q3.

Harm Luttikhedde - *Betten Financial News - Media*

And do you think those new products will even make it possible for a higher margin in the division DAP?

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

Well I think the model hasn't changed. I think I have said earlier in the call that there is a chance that the margin of DAP would be above guidance for the year. But we've said as well in an earlier question that we will have selling expenses which is part of our model in Q4 which will take a bit of a negative effect on the margin of DAP for the year. But yes, I think clearly as DAP is on a very strong year both in terms of margin as well as in terms of revenue growth.

Harm Luttikhedde - *Betten Financial News - Media*

And one last question about Aurea. I've been told by one of your people that it's been sold out for the whole year already, is that correct?

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

Yes this is true, I wouldn't -- yes that's a fact --

Harm Luttikhedde - *Betten Financial News - Media*

Only for 2007 or also for -- yes well year-to-date?

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

No, I think we don't have -- as you know, it's not a business where you have such a long backlog. Aurea was introduced with a relatively small quantity of products because we wanted to test a marketing concept with a price point which was significantly different from what we were doing on CD until this day. And the answer is that it is, from what we can see, a success. But the impact on [Aria] in Q4 and in Q3 will be modest. And to talk about next year is too early because this is not an industry with backlog.

Harm Luttikhedde - *Betten Financial News - Media*

Could you say anything about numbers regarding Aurea?

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

There is no -- Aurea, it's very insignificant. I won't give you numbers, but it is not significant to the Connected Display and broadly Consumer Electronic sales.

Harm Luttikhedde - *Betten Financial News - Media*

Okay, so then it must -- that will have to pick up -- would have to speed up next year?

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

Yes, but certainly we plan to extend it and broaden the range of [Aria] next year, but that's a bit too early to talk about it.

Operator

Thanks. The next question comes from Mr. Olubunmi Asaolu of Lehman Brothers. Please go ahead.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Hi, good morning. Just one question on your 2010 targets and the contribution of CE to that. I know that you said you wouldn't disclose your divisional targets for next year, but also you're not backing away from the absolute numbers if one were to look at those divisions independently. So since those divisions are targeting 6% of growth year-on-year anyways, can we assume that your sales growth for consumer will be close to 6% as well going forward? And if that's the case what areas actually will this growth come from? Thanks.

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

Well I think -- well first of all the 6% guidance which was a 7%, 7% plus guidance on DAP for this year, that guidance did not apply to Consumer Electronics for 2006, excuse me, for 2007.

Moving forward, you've mentioned it, well the model won't change. The guidance for Philips goes from average 5% to 6% to average minimum of 6%, and obviously the models and growth, we will have to have a little bit of growth from everywhere I guess, right. I think there is -- we haven't guided you there, but we don't expect any major change there. Even though we won't guide you on it there is nothing really going to change in the future in our models and in the way we operate.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

The reason why I ask is because CE with the divestments that have happened recently I would assume that the growth really hasn't picked up that much. So to get to that average 6% if the other divisions are growing roughly around at least 6% to maybe 7% in some of the divisions, then CE will have to pick up.

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

Yes you are correct, but on the other hand we will always give a priority, as far as CE is concerned, we will give priority ways to the margin, in particular in the domain of Connected Display. But the margin of CE right now is rebounding and we believe that over the period of the next three years, the portfolio we will have, we are confident that we will be able to deliver the kind of growth we have guided you on.

Olubunmi Asaolu - *Lehman Brothers - Analyst*

Thank you.

Operator

Thank you. The final four questions are follow-up questions. Please ensure you limit yourself to one question each. The first question comes from Mr. Simon Smith of Citigroup. Please go ahead. Thank you Mr. Smith your line is open, please continue.

Simon Smith - *Citigroup - Analyst*

Thank you, yes. The question I had was with regard to MedQuist, I just wondered if you could give us some clarity as to what the financial impact within your numbers has been from MedQuist and what you would think that would be going forward?

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

Basically on this particular quarter you saw that we have actually disclosed the reduction of revenue of 9%. In terms of impact on the bottom line it add a few millions because as you know we are still and I guess we're coming to the end of this because them being current, as I mentioned earlier on in the call, that was a result of quite a lot of work. We are absolutely happy that now it's done. But that adds still a few million of euros of negative impact on the EBITA of Philips Medical in the third quarter.

Simon Smith - *Citigroup - Analyst*

So a few million negative in Q3 and sort of maintaining at that run rate?

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

Yes, I think basically until everything is basically taken care of i.e. not only being current but taking care of the other issues, we still have -- it's never going to be very accretive or very negative, but we are around that kind of number. And it is -- if you want to know on which side of the zero it is, it was slightly on the negative side of the zero all-in for Q3 for us.

Simon Smith - *Citigroup - Analyst*

Thank you.

Operator

Thanks. The next question comes from Mr. Julian Mitchell of Credit Suisse. Please go ahead.

Julian Mitchell - *Credit Suisse - Analyst*

Yes, thanks. My follow-up was really, just in your US market overall I think you saw comparable sales in the Q3 down 1%. Obviously a lot of that is Medical CT related as you said several time, but I was just wondering if you could comment on the general trends that you're seeing in your US demand across the different business? Obviously a lot of concerns about the macro situation and so on, if you could just tell us what you're seeing there?

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

Yes, I think for the consumer side you can clearly see that DAP is doing well. So there I would say the important element is to continue to deliver some growth on the back of the innovation that we are introducing. I think in the US, what I want to add is for Medical, we are positive; I wouldn't want you to conclude that the US was negative growth in Q3. Thanks to the performance in the non-DRA impacted modalities, we add positive growth in the US for Medical in the third quarter. I think -- so these two were actually basically up.

Where we took a little bit of a negative was in Lighting, essentially because of UHP. I think the rear lighting in television as it was disclosed in the release, that market is taking a beating right now and that is impacting us. But we are dealing with difficult comparables year-on-year, and looking forward we will be looking at easier comparables. And, of course, with the impact of the growth coming from the new product range of Lumiled, that would help us moving forward for Lighting North America.

And finally on Consumer Electronics, there we, as you know and we've been always very explicit about that, we do very careful category product management in the domain of CE and in particular in Connected Display. That means that if we don't like the margin that are on the table, we tend to run away from that particular revenue. So I would be a bit more prudent on CE because there, as we've said a couple of times on this call, what governs is our model.

So to summarize the two PDs were up, which were Medical and DAP. CE there was driven by careful category management on the back of our model and Lighting was hurt by the particular situation of UHP with the good news to come on the back of Lumiled and less difficult comparables for UHP for the quarters to come. So that indeed concluded in that minus 1% for the US for that Q3.

Julian Mitchell - *Credit Suisse - Analyst*

Great, thanks.

Operator

Thanks. The next question comes from Mr. Nicolas Gaudois of UBS. Please go ahead.

Nicolas Gaudois - *UBS - Analyst*

Yes, hi, a quick follow up on the US CE actually. Are we back in the situation now where we're hovering around breakeven or slight negative operating margins there, or are you still maintaining above breakeven?

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

No, I think well it depends per product division. Are you talking about --?

Nicolas Gaudois - *UBS - Analyst*

Consumer Electronics specifically?

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

Consumer Electronics, so I think in consumer electronics it's probably going to be a tough call this year to break even. I believe given pricing pressure on Connected Display, I think Nicolas, on this one, we are doing category management. We're doing good progress because we are making very nice progress in the other BUs which I have describe, whether it's Home Networks, whether it's Peripherals, or whether it's Entertainment Solution. But pricing pressure on Connected Display might make that one a tough call consolidated in the US this year.

Nicolas Gaudois - *UBS - Analyst*

Okay, fair enough, and just very briefly on the Consumer Healthcare Solutions side. Could you just give us an idea of what have been the revenues for first nine months, just to help us modeling this into Medical for next year?

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

Yes, I think I will -- what I can tell you is it was one of the good news. What I can tell you is that we had in terms of EBITA a contribution to what is today in emerging and innovation on that particular line, we were in positive EBITA territory for the third quarter. And this will actually continue to make progress next year. And in terms of revenue I think that you should be looking at a couple of hundred millions, I would say, for next year on the full year basis coming in from that line into -- coming from innovation and emerging businesses into PMS for next year.

Nicolas Gaudois - *UBS - Analyst*

Excellent, thank you very much.

Operator

Thank you. The next question comes from Mr. Didier Scemama of ABN AMRO. Please go ahead.

Didier Scemama - *ABN Amro - Analyst*

Yes, thanks for taking my follow-up. My follow-up is on the DAP business. It's been an exceptional performer over the last few years, but I think in your introductory remarks you said that you thought the comparables were getting a bit tougher. And I guess the innovation will sustain the performance, but how much upside is there really in the margins of that business?

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

Yes. Well I think, Didier, if you go back to last year you will see that the fourth quarter of last year for DAP was up 13%. This is when -- I think this is a quarter where we started going into double digit. And we've been double digit consistently now for almost a year, if you include that fourth quarter.

The good news, though, is a lot of the innovation we talked about was introduced very late in the year. I think in the domain of the new Sonicare products have just been introduced, so the mileage from that brand new line is just coming now. Arcitec, which is a new line of shavers, has just been introduced. And as you probably know, we get the best mileage in terms of growth normally at the end of year one of a product introduction. So that means that we normally, statistically those new innovations of now which are quite significant for DAP should give us mileage in particular in the latter part of next year when we actually need it.

So in terms of growth, we are entering more difficult quarters because we are now starting to compare to the double digit growth quarter which started with the fourth quarter of '06. But again we're doing this on the back of strong product innovation, and as mentioned, probably very strict category management in emerging markets which for now two quarters is really helping us on DAP.

To the margin, again it would be very tempting to let the margin go up, but we will continue to invest. So I think as far as the margin of DAP is concerned, there is probably a bit of upside. But we will be controlling that upside so that the growth can continue, because we want that growth to continue at the kind of level we had guided you for the year, which you remember was the 7% plus. And to continue to do that on the back of the strong comparables what we now have, we need to be very disciplined with our business model. So I would not expect the margin to go well above the model and the guidance that we have given you so far. We'll try to stick to that.

Didier Scemama - *ABN Amro - Analyst*

Right, just can you actually expand quickly on the margin upside in Q3? I know it is normally one of your strongest quarter for DAP, but was there any particular event that drove the significant upside?

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

No, I think no, I believe that the volume is quite strong; the mix is obviously quite strong as well. We had double digit growth in all categories with the except of one. And as you know, the selling expenses are usually stronger in Q4 because that's when you prepare for -- because right now is where basically you get ready for the Q4, for the so-called selling season. But you spend quite a bit of money ironically late in Q4 in order to make sure that the first quarter continues to be a good quarter. So think in Q3 we have a complete home run in terms of growth, in terms of hitting all the right targets with the right product mix and countries. And in Q4 we will have the usual investments of selling expenses in order not only to make Q4, but more importantly to deliver strong Q1. So nothing particular there, Didier.

Didier Scemama - *ABN Amro - Analyst*

Okay, thanks very much.

Operator

Thanks. The final question comes from Mr. Timm Schultze-Melander of Bear Stearns. Please go ahead.

Timm Schultze-Melander - *Bear Stearns - Analyst*

Hi, just had a quick housekeeping one, actually; I don't know if I missed it. On the Semiconductor division disposal you have some tax I think that's due to be paid. Can you just remind me what the magnitude and the timing of that is?

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

well, this is still -- we've never really disclosed that because we still have discussions currently going. We have said that in the course of this year we would have some tax-related -- cash-related, sorry, some cash-related tax payments on the back of the semi transaction, but those payments have not really taken place yet. And it's hard for me to guide you because we want obviously to minimize those, and we are having discussion with various tax administration. So for the sake of keeping as much leverage as we can, I would prefer to leave it at that for the time being.

Timm Schultze-Melander - *Bear Stearns - Analyst*

Not even a double digit -- just in order of magnitude?

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

In any case it would be completely a cash element. Because we believe that in terms of bottom line impact the provision that we have taken are sufficient, so I can give you comfort from the P&L point of view. From a cash point of view we could have a few hundreds of millions related to that in the quarters to come, but I can't be much more specific at this particular point of time. But the P&L is not going to be impacted.

Timm Schultze-Melander - *Bear Stearns - Analyst*

Okay, very helpful, thank you.

Operator

Thank you, Mr. Sivignon, there are no further questions. Please continue with any further points you wish to raise.

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

No, I think we have no particular points. We want to thank you for your questions and goodbye to you.

Operator

Ladies and gentlemen, that concludes today's conference call. Thank you for participating, you may now disconnect.