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PRESENTATION

Robin Jansen *- Royal Philips - Head of Investor Relations*

Good morning ladies and gentlemen. Welcome here at the Philips Capital Markets Day 2015 in the Landmark Hotel in London. I would also like to extend a warm welcome for those of you who are listening and looking at this Capital Markets Day through the live webcast that we have available through the internet.

I think we have a very exciting day ahead of us where we will explain a lot about where we are in our transformation process, our separation process, and we will zoom into the HealthTech opportunity and strategy. But before I do that, and talk through the agenda of today, I would like to draw your attention to the following Safe Harbor statement, which you can see on the slides and which is also in your slide pack.

In addition to that, I would like to apprise you of the following. As most, if not all of you know, we are in the midst of separating Philips into two leading fit-for-purpose companies. And as we are considering all strategic options for Philips Lighting, we have to be careful about the forward-looking statements we make. Because we are considering all strategic options and one of them is a potential IPO. And as such, we are restricted from giving certain forward-looking statements. So therefore, we also have to be careful about indirect forward-looking statements. So all the guidance that we give today will be related to group performance, and so there will be no specific guidance at HealthTech or Lighting Solutions level.

Now, let me talk you through the agenda of today and what we have in store for you. After my welcome, Frans van Houten, the CEO will provide a company update about the transformation process, the separation process. We will remind you of the attractive opportunities we see in lighting and then zoom into all the opportunities we see in the health tech market.

After that, Ron Wirahadiraksa, the CFO will provide a financial updated related to all the strategic elements that Frans will talk about. And after that, we will zoom into our path to operational excellence done by Pasquale Abruzzese, our Chief of Operations. That will be followed by a Q&A where we can have a Q&A for Frans, Ron and Pasquale. And after that, we will end the live part of the webcast. The rest of the day will be recorded and will be put on the internet as soon as possible after the event.

After the Q&A panel, we have a break, to have a well deserved coffee, and then we will split into six groups, so we create smaller groups, and we will go in what we call business zooms, breakout sessions where we aim to bring our HealthTech strategy to life and show you a lot about all the opportunities that we see in the health tech space.

And as you can see, there will be a number of business leaders providing you with all kinds of inspiring insights in the HealthTech strategy. We will do three before lunch, and then we will continue with the other three after lunch, and after those business zooms we will come back here and have a Plenary Q&A. At the end of each breakout session there is also the opportunity to ask questions in the smaller groups, and then we will have a kind of wrap up Q&A here in the Plenary room, and then there will be kind of final words from Frans van Houten.

And before I forget, it's also good to keep in mind we intend to provide you with a USB key at the end of the day so you will have a soft copy of all the presentations so that you don't have to go to the website to get all the soft copies. Now with that, I would like to hand over the mic and the floor to Frans van Houten, CEO of Philips. Thank you.

Frans van Houten - *Royal Philips - CEO*

Good morning to you all. Also welcome to all the folks that follow us on the webcast. It's a pleasure to see all familiar faces, and it's an honor for us that we can update you today on the journey that Philips is on. It's an exciting journey, and we are making progress, and we would like to appraise you today of that progress and all my team members here look forward to the interaction today.

Let me quickly summarize my key messages. Of course, you are interested in how we are doing with the separation of Philips into two companies. I can tell you that we are on track with that separation. Lighting is a great business, and the way to look at lighting is a very cash generative conventional business and a fast growing LED systems and services business. An attractive proposition with increasing financial returns. Philips will focus in the future on HealthTech. Healthtech is a very large market, a growing market, has a lot of excitement around it. Yyou can read it every day in the newspapers, and we have a great starting position in that. We become more and more a solutions provider, so that we better serve our customers. We are boosting growth and scale. We will gradually get to an improved profile of performance for Philips and in HealthTech. We see many, many opportunities, and we are going to inform you about those opportunities today.

You will of course have a great interest to understand the near term performance, including 2016, and here we can tell you that we continue to see operational improvements at the adjusted EBITA level that support the earlier guidance that we gave in January and July where we see an improvement first in 2014 of approximately 200 basis points, arriving, landing at around 11% adjusted EBITA in 2016. Albeit with a more modest growth of course taking into account a macro environment that is not that easy, and we will come back on that.

Now let me dive deeper into the journey that we are on. You are very familiar with the journey that we started in 2011, where we said we will address fundamental underperformance in our businesses. That's the bottom bar, and we are continuing to effectuate that. We have done a lot, but there is more to come. I've always said this is a multiyear journey, and we need to stay the course.Only through consistent and persistent effort can you adopt a business system like for example, a Danaher that I admire very much. But while we address underperformance and try to become a truly excellent company in everything we do, we are also investing in new growth. In scaling up existing businesses, and initiating new growth engines. And there are numerous examples, and I'm sure you have followed the press releases out, around for example digital pathology and healthcare informatics and the fast growth in, for example, oral care. These are examples of the upper two bars. We will continue with this general framework as we move forward. It helps us continue to improve.

As part of this journey, we announced that we will separate Philips into two leading companies. Yes, that reflects an insight that a diversified holding model is no longer serving us, and that we believe that it is better to have focused management on each of these opportunities, thereby becoming a more homogenous focused company that drive synergies in the business that we are in and get to better returns with the right accountability but also with access to capital markets and the set of investors that are each interested in either Philips or Philips Lighting or of course, perhaps both. A clear proposition, but both are good businesses, and both businesses are targeting growth markets. And we will talk more about that today.

I've said already that we are well underway with the separation process. For a company that is 124 years old, obviously we have some disentanglement to do in systems, in legal entities, assigning people that are part of shared service organizations, and we have made great progress. We are on schedule to finish the legal separation by January. We are on track to create Capital Market access for Lighting in the first half of 2016, and as Robin Jansen already said, we will consider all options including an IPO and possible other scenarios. So that's the basically the update on that. We will diligently continue to work through all the details, but it is reassuring that we are on schedule. We have not found any major roadblock, so as such so is going well.

And although the day today is focusing on HealthTech I would be remiss to not briefly remind you of how attractive our lighting business really is. First of all, the lighting market is a growing market. You need to look beyond the trees to see the whole picture of the forest, you know? We see a growing lighting market because more people will get on the electricity grid either through solar or through the grid. In a growing population worldwide, more people will need light. The world will definitely need more energy efficient light, and LED and smart systems can provide that. And as we speak about digital light, the amount of new applications that come to us are just phenomenal. Smart lighting that reacts to the amount of people in the street or in the building, colorful light can enhance environments. All of this drives a growing market 2-4%, but also the profit pool remains intact in that market, and some people are worried about commoditization, but actually as the market becomes more sophisticated with systems and services, and smart luminaries, there are new opportunities for growth. So we remain positive about the market outlook on lighting, and it's just that we go through this turmoil of transition from conventional to LED.

Within that turmoil, actually Philips is very well positioned. We have already made the decision to move downstream in the more value-added area of lighting. We are the company that already has more than 40% in so-called luminaire systems and services, where the profit pool is migrating towards. We have a great profile of leading positions in both conventional and in the key growth areas of LED systems and services. Our reach has an unrivaled channel strength but also brand value, and we see as prices come down of LED lamps, that actually our brand value premium kicks in, and this has happened before, also when we introduced the CFLI lamps and once the dust settles, also LED lamps will benefit from this channel brand premium that we can derive. Of course we have a strong track record of innovation. We have the strongest pattern portfolio in the world. Hundreds of companies take IP licenses from Philips in order to deal with our strengths there. We are leading the way to this added value systems and services with the Hue Lighting, with the Smart CityTouch, and so on and so on. So I think we are creating here a very attractive profile. Well positioned to capture the opportunities.

And I would again underline how you can look at lighting. On the one hand, a strong conventional business that has a very high cash generating profile where we have strong cross advantage because of our proactive restructuring and economies of scale. Our cost profile is better than the competition, and we know through all the modeling that we have done, that over the next many years to come, even when we need to restructure and close factories, that our conventional lighting will remain cash flow positive. So that is one part of the lighting business. And the other part of the lighting business is a highly attractive, fast growing LED luminaire systems and services business where we have brand leadership, where we have distribution leadership, where we are the leading innovator with smart solutions such as CityTouch and Hue and smart buildings that generate a lot of interest in the market. We are conscientiously moving Philips Lighting into these systems and service areas where we get more sticky relationships with our customers and where we get recurring revenue streams through innovative business models such as selling light as a service and through maintenance contracts arround smart cities and smart buildings.

And in this luminaire systems and services market we can already see that the LED piece has above market growth and profitability. We have a strong management team that will be able to manage lighting as a stand-alone company, and I have full confidence that they are able to do that, and we have stepped up and beefed up this team, for example with a new CFO and for example with a new operations leader in order to ready lighting for their new standalone future.

Summarizing the lighting strategy, we will generate cash from the conventional business, we will fuel growth in LED systems and services driven by innovation, driven by the move to systems and services, and we are innovative in capturing added values through new business models. We continue to boost performance through our Accelerate program, driving operational performance, lowering overhead cost structures, but also improving service levels to our customers. The net result of all this hard work will be that we see a future with profitable growth, margin expansion, and as we become more asset light, as the manufacturing model starts to shift to leveraging more our supplier base, we can also see a rising return on capital. And all along we see an increasing free cash flow generation.

That is what I wanted to tell you about lighting, just so you keep it fresh in your minds that this is a great business. Most of today we are going to talk about HealthTech. Now if you observe, we have changed the number at the top of the slide. Last year we spoke about a market opportunity of around $100 billion, and as we were getting deeper in this vast opportunity, we have allowed ourselves to look at the adjacencies next to our strong market positions and believe that we can serve an addressable market of approximately $140 billion. Within that, we today have around $15 billion sales. That means we have a lot of room to grow. We have many positions where we are already very strong. I will come back on that later in my presentation.

We detail out here through this iconic Health Continuum the phases of the market that we address. Healthy living, prevention, diagnosis, treatment, home care, supported by population health, monitoring informatics and connected care. This is a way to look at the market that we have piloted and pivoted last year already, and whereas a year ago much of the market was still stalking about med tech, you see more and more companies, governments, talking about this Health Continuum, recognizing that acute and episodic care in the middle is not going to be the way to look at delivering health to all the billions of people in the world. So we take this integral view that fits very nicely with our core strengths in professional healthcare and in consumer health and well being. We believe that these two roles will be strongly interconnected and we will detail that out today why that is.

Overall we see a market that will have mid to high-single-digit growth, and that's attractive to us, as we repositioned for strong performance in these segments. When we look a bit deeper into the Health Continuum and the market segments that we see there, we see a couple of profound trends. Trends that play into our cards, that play into our opportunity to support a market transformation with technology. We see in the acute and episodic care, basically in the middle with the hospitals, a shift to value based healthcare., aiming to reduce waste, aiming to increase access to more people and improve outcomes. This is often referred to also through accountable care and of course it relates to the fact that governments grapple with the fact that healthcare has escalating, soaring costs and needs to be contained.

The way to contain that cost is first of all what we call the industrialization of healthcare, making sure that it's first time right and less wasteful, but secondly, the personalization of care, whereby consumers are increasingly engaged in their own health journey, and perhaps you will recognize this from your own lifestyle changes, but secondly the care will shift from the expensive setting of the hospital into more the community and into the home setting. We will see a world where ambulatory care is much more prevalent rather than hospitalization as such. And this reinforces this ecosystem of the Health Continuum, whereby there needs to be strong collaboration between healthcare providers in the middle and how people live their lives both when they are healthy, how they prevent escalations of problems and how they live with chronic disease. This will be driven by governments, this will be driven by insurance companies, this will be driven by large IDMs who adopt accountable care models, and this is a great opportunity for Philips since we have such a strong franchise in consumer health and wellbeing and a strong franchise in the hospital setting.

We will be the company that targets solutions based on innovation to help people live a healthy life, to enable people to manage their own health, such as for example through oral hygiene, to ensure that diagnosis is first time right. Frankly speaking, this is still a bit of a holy grail for many hospitals, and if you see all the tests that are being done, there is a huge opportunity to ensure that through algorithms, through informatics, we help doctors diagnose people first time right, and put them on the path of the right treatment. This is often referred to as personalized medicine. And wouldn't we all want to have personalized medicine instead of a shotgun approach? So this is a very attractive opportunity where Philips is already working on so-called adaptive care pathways linking diagnosis to treatment. And when we speak about treatment, minimally invasive allowing you to go home the next day, effective therapies, faster recovery. Of course that is where we will talk later today about image guided therapy and volcano.

And as people go home, technology to support the recovery through medicine compliance, through tele-health, through coaching and all of that I think targeting a large and growing population that may have to live 30 years with a chronic disease. Cardiovascular disease, cancer will become chronic, respiratory care is chronic, so all in all, many opportunities.

We will support these businesses through a population health play, increasingly Philips is an informatics company. You will see that today in the various detailed presentations from my colleagues leading the businesses, that informatics, where we go beyond the product, where we interpret the data and apply decision support, where we apply coaching, is the future. You can appreciate that that will help us create more value for Philips, where we do no longer just compete just on the books, but we provide the software and services to differentiate ourselves and become more effective solutions partners to our customers. This is where the value will also partially migrate. So monitoring informatics and climactic care basically straddles across this whole Health Continuum, integrating it all, and we will look for more and more integrated solutions around cardiology, oncology, respiratory care and pregnancy and parenting.

We are convinced that we have a good deck of cards, a unique position to play out this opportunity. Build around the deep consumer and customer insights, deep clinical know how, strong analytics and clinical diseases support expertise, advanced technology, broad channel access. Philips is a global player and everywhere our brand is well recognized. We are a trusted solutions partner.

And as we move from products to software and services, we are harmonizing the interface by building everything on top of the announced HealthSuite Digital Platform, and you will hear more about that this afternoon as well. The starting position is strong, with leading positions in every phase of the Health Continuum and also in at the bottom in monitoring informatics and connected care. I would invite you to take a moment later today to let all these strong positions sink in, because I think it's the foundation on which we can build this future Philips HealthTech company.

We do have a clear execution plan now in place to deliver on this compelling strategy, and it will not surprise you that it is anchored on the continuation of our Accelerate program in order to really master operational excellence in everything that we do. So foundational at the bottom, continue to focus on better serving customers and improving performance with better execution, basically leveraging the Philips business system. We are investing to boost growth and gain scale in our core businesses that have a lot of potential. And for us, innovation is not only technological. Innovation is also in how we engage with our customers through consultative relationships. These consultative relationships at the C suite with our customers or B to B to C in order to reach consumers, for example, through insurance companies and employers, help us to grow faster. And at the top, number three, build winning solutions along this Health Continuum, leveraging our leadership in diagnostics, consumer health and patient monitoring, stitching together cardiology care pathways, oncology care pathways, respiratory care, pregnancy and parenting.

Let's go a little bit deeper in this execution plan to give you the color on how we will drive value. First of all, much value continues to be created by continuing on our accelerate journey. And implementing the Philips Business System. I referred already to other companies, how they have them that consistently for many years. We still have work to do to further drive quality and compliance. We still see opportunities to become more efficient and to take out overhead costs, and there are numerous examples also listed here at the bottom where we continue to drive that. I can tell you that on Cleveland we are making progress and later today our Chief of Operations, Pasquale Abruzzese, will talk more about it.

We have started a whole program around Lean manufacturing, and we see a lot of opportunity to derive more value from that. Our procurement program was designed for excellence involving our suppliers more strongly, continues to drive above-average, above historical levels of procurement savings, helping us to capture this well known one billion that we announced a few years ago. We have other programs around operational excellence, and when we talk about overhead cost reduction, but all in all, when you look at these opportunities, I can tell you, I can reinforce the notion that we continue to be a self-help story, where we see over the next several years an improvement potential of around 300 basis points to 400 basis points for let's say improvement of the profitability.

The second step in the execution plan is innovation. Innovation that boosts growth and deepens customer relationships. So both technological and commercial business model innovation help us to deeper penetrate markets. We see that our strong conservative approach where we often co-create with customers using designed thinking, designed methodology, that it helps us to win the hearts and minds of the C suite. The Westchester Medical Center health network $500 million earlier this year is a nice example, and Brent Shafer, our CEO of North America will talk to you on how this is helping us to gain our market position. But also on the product side, through geographical expansions, through product range expansion, and for example Oral Healthcare as well as Ultrasound we see that we can attain high growth rates. And very nice returns.

And the third step of the implementation plan is around creating solutions that follow these diseases around cardiology, oncology, respiratory care, and so on. Where as we capture these deep clinical insights and connect to the consumer we can leverage adjacencies in our leadership positions. This is where focused M&A will also help us, and where the HealthSuite Digital Platform will create a foundation so that data can be extracted, population health can be enabled and connected and coordinated care can be delivered.

Examples here are numerous, and I remind you that we are investing in our businesses we speak, and some of that investment stills needs to generate a return over the next three or four years, the cost already being in our run rate. One example is the acquisition of Volcano, where we are making great progress, where we are basically ahead of plan on the value creation phases. But other examples are where we are leveraging our strong position in patient monitoring and building it out across the Health Continuum, also by investing in variable technologies, in sensors that patients and consumers are taking with them at all times. The investments in the HealthSuite program we are building out along these various diseases integrative solutions.

So there is a lot cooking in the kitchen, and you will see a lot of that coming through in the demonstrations and presentations this afternoon.

What will this all mean to our business portfolio? And here I take an advance also towards the new segment reporting that Ron will talk about and that we will introduce next year, where we talk about four segments in HealthTech. Diagnosis and Treatment, Healthy Living, Prevention and Home Care, Monitoring Informatics and Connected Care. You will recognize in this Health Continuum that we have grouped together some of these segments into a new segment reporting.

The execution plan that I just shared with you will help these businesses to improve margins and to strengthen the growth profile. The recipe is adjusted to each of these businesses. Healthy living, and you will recognize the strength of consumer lifestyle there, is already on a very good path. Preventative and Home Care also is already a high performer. But for both, we see opportunities to strengthen both growth and profitability. The biggest moves will be made by Diagnosis and Treatment, where of course we saw the impact of Cleveland, where the operational excellence improvements will benefit the business a lot, but where we also carry the integration costs today of the Volcano acquisition. And as we overcome these quality issues, and as we work through the integration of Volcano, you can see how Diagnosis and Treatment will start to edge up into again into the territory where it belongs, namely in double-digit margins and through innovations, a higher growth profile.

Similarly, for Monitoring Informatics and Connected Care, I would like to remind you of the strong investments that we have been doing in that area. In monitoring informatics and connected care you will find that the investments that we are doing in Healthcare Informatics in the HealthSuite Digital Platform in wearable technologies. So in depth cluster of businesses in fact we have relatively speaking a high R&D investment today versus sales. That is why at the bottom we mentioned that we expect a higher ROI on our R&D leading to a margin increase. In other words, getting a higher scale will generate a healthier profile both on margins and growth. There is obviously a lot more to speak about this. We felt that you would appreciate to directionally have a summary of how the portfolio in HealthTech will evolve, and this is the way we aim to talk about it in the future. Also giving you insights around the performance of each of these segments.

The business will be driven by this management team, a management team that has seen some changes over the last six months. for example, Rob Cascella came on board coming from Hologic. You will hear him speak later today. Another change that has already been announced is Andy Ho in China who comes from IBM and who will help us transfer and transform there from basically a product business into a systems and services business. Again, acquiring the skills needed in order to play into this solution space.

In summary, we have detailed out our plan to grow Philips in HealthTech, anchored on operational excellence, boosting growth and scale in our existing businesses in an organic fashion through innovation, technologically, but also through customer business models and thirdly, by building out winning solutions along the Health Continuum.

This leads to an improved financial profile that you may say rightly so, a financial profile with mid to high single digit growth and mid to high teens EBITA margin. Where we will see a higher ROIC and where we will consider disciplined but a slightly more active approach to M&A as we build out our portfolio along this Health Continuum and Volcano last year being an example of that.

I would like to talk about performance also in the near term and Ron will expand on this. In the near term, we see operational improvements coming through as discussed in January and as discussed already in July. So as such, this should not be anything new, it's just perhaps through the bridge it gives you a clear representation of what we mean. So on the operational level, between 2014 and 2016 we see approximately an improvement of 200 basis points on the adjusted EBITA level. This driven by modest sales growth and especially by the self- help that we spoke about. And it does include sizeable investments in transformation, and it does include sizeable investments in new innovation. This adjusted EBITA level is taken down by continued restructuring and separation costs as we talked about in the July quarterly meeting.

We also would like to remind you that even though we are very convinced in our ability to drive operational and performance improvement, that we do see a number of incidentals still at the horizon. For example, the pension plan de-risking that we have talked about. Secondly, we are still working on the transformation of our Professional Lighting Solutions in North America and I think overall you would agree with me that the world around us has not necessarily become an easier place with high currency volatility and a China, Brazil, Russia marketplace that is not exactly flourishing. So we see certainly in China that we need to tighten the belt as we in the near term, next one or two years, see a reality of lower growth.

I also noted on here that we are working diligently around the Lumileds transaction close that we expect later in this year.

Let me sum up. We are well on our way to creating two leading companies. Two companies that have both attractive opportunities to grow and to expand margins. Lighting with a strong conventional business and a high growth LED systems and services business. And Philips focusing on an attractive healthtech market where there is a lot happening and a lot of opportunities where the governments and health providers are all looking for better solutions and where we believe that through our solutions approach, through our innovation, we can boost growth and we can boost scale and drive a better performance. And I've spoken to you about our near term performance outlook and with that, I would like to round off and invite Ron Wirahadiraksa on stage to give you a more detailed financial performance update. Thank you.

Ron Wirahadiraksa - *Royal Philips - CFO*

Thank you, Frans. Good morning everyone. In the coming 20 minutes I will give you a financial update for the group. I will speak a bit about the global environment out there, our operational performance, currency, targets and about the separation.

The macro environment continues to be very challenging. It's not getting any easier. Real GDP versus last year forecast trending down, healthcare spend in the world also down, not in the least by the strong U.S. Dollar, which is taxing on budgets of some other countries.

And we see also in the non-residential construction that versus earlier forecast, outlooks are a little bit dimmer. Particularly in the growth geographies, Brazil, Russia, and notably China, we see slow-downs and softness, and if I home in a bit on China, the current challenges are of course the macroeconomic situation, the headwinds, what is the real growth rate in China, weaker construction markets, slower healthcare spend due to structural reform and uncertainty, and a drive for domestic innovation.

Now how are you going to combat that? Because in China we have to learn to work with a much lower growth rate and focus also on costs and operational efficiency. That is exactly what we will do, and we will also provide along the lines that Frans just said, our new solutions business into China.

There are also a few bright spots, because there are new opportunities in China, the private market, the private healthcare market in China is slated to grow to above 20%. For those who can afford it, China's government has an agenda to drive healthcare in that segment too.

And of course we have a very exciting health and wellness business, and that in China, and I'm talking about the consumer part of the business, is a growing segment, particularly in oral healthcare, consumers in China increasingly flock to take care of dental health, because as also depicted on Health Continuum, that helps with prevention.

The market outlook, the healthcare market and the lighting market, on the back of what I just said, and in lighting, weaker construction will remain softer. Consumer Lifestyle business is also experiencing slower growth, that is a key takeaway from this slide.

How are we faring? You have seen for the first half, after the Q2 reporting, that the accelerate story, the operational improvement story line at Philips is much more than cost saving. There is a fair bit of cost saving, and we'll talk about it, but also on growth and innovation, [is then taxed] with 100 basis points margin expansion.

That margin expansion is then partly taken away by ForEx impact, and of course we still have some of the Cleveland cost to take, which we see improving in the second half of this year. So that leads to about a 10 basis points market expansion, underlying, and that is the key message here, the operational improvement is intact, 100 basis points of improvement.

So for the second half of the year, what are some of the positives? You can see them here. Cost savers in driving operational excellence is very much on the agenda. End of page. Despite somewhat of a more muted order intake than we anticipated in Q2, we do have a strong order backlog to make the sales for this year.

Cleveland I already mentioned, the production is ramping gradually up, and we do expect to improve there. There will be a lower restructuring cost, and of course gradual improvements, as we said, as Frans also highlighted in our Professional Lighting Systems business in North America. We're aiming to drive for low single-digit growth there for the second half in this year.

Some of the offsetting factors in the second half will be the slow-down in the growth geographies as I have just outlined for you, notably in China, but we can't forget that also in Brazil and Russia things are not exactly as we anticipated, and that that also has significant currency impacts in both geographies.

Our separation costs, we highlighted $200 million to $300 million. We spent in the first half $40 million, so there's $160 million to $260 million to go, and that is because we're getting into a phase of separating the company, all the hard work done, where executing on split will drive more costs to come in, as anticipated, so this is the normal pattern for us.

And then we will also do pension de-risking. We'll do it such that we get good value versus the risk mitigation that we are seeking. It's too early to call in amounts, because right now, we are discussing with all stakeholders - pension funds, and others in the market, so there's not much to be said there at this moment.

As you know, we've been very active in pension de-risking over the past few years, partly in the U.S., we have de-risked the Dutch pension fund last year, and we intend to prolong that further, particularly around the U.S.and the UK fund.

So as you can see, we continue to focus on the modest sales growth for 2015, and we're also focused on driving continuous operational improvement.

A bit more on currency, I've broken the currency down here on the left top side of the page. You can see the 41% in U.S. Dollars. Despite that, on the right-hand side, you can see we're effectively net in U.S. Dollars. So the currency footprint of the Company has altered somewhat.

And it has altered, for example, because of the divestment of the Lumileds / Automotive business. It is a business, particularly in the Automotive side, that was long in dollars, and with the Volcano acquisition, the U.S. Dollar cost footprint has also increased a bit.

So how do we manage that? Of course we're looking ongoing at rationalizing our footprints, and Pasquale Abruzzese is going to talk about that. Pricing increases where we can, and when we can, driving costs in general, besides manufacturing to a good level, and of course we're driving better solutions in business, with anticipated higher margins.

For the second half however, despite what we anticipated after Q2 earnings, where I said on the call to be 100 plus, we now expect this to be slightly negative for the full year, yes, so the big plus that we anticipated in the second half under the influence of recent currency movements, and you now have all good knowledge on where they come from, they have driven down the impact to a slightly negative number.

A word on the 2016 targets. Frans spoke about the 11% adjusted EBITA margin, so let me start on the left-hand side with the reported EBITA margin, and build it up to the right-hand side of the page, the reported EBITA margin 2016.

So from 4%, there were significant incidentals last year. So added back to the reported EBITA, is 520 basis points of incidentals. That brings the adjusted EBITA margin for last year to 9%, and we intend to expand that with 200 basis points to 11% in 2016.

As you can see the build up of it, a lot will come from operational improvement, this is in line with early anticipated developments in the operational improvement, and of course we have some risk there because of the growth geographies and ForEx, but we're working very hard to drive cost further down.

Also Cleveland will add to this, and then we have a slight contingency. That makes it to 11%, and then you can see here on the slide, that restructuring is about 1%, and there is 1% for separation costs. So I find it good to articulate that this is not a change from what we communicated after Q2. We have simply written down and quantified the number here. So the reported EBITA 2016, 9%, with an adjusted of 11%.

Productivity programs continue to improve the operational performance. You can see it here. 2014 incremental growth overhead savings, DfX and the productivity, and the restructuring and investments. And the restructuring and investments line is completely in line with what we publish every quarter, so we can find that back.

In 2015 for example, of the $260 million, there is $175 million of investments. Those are the one-off, accelerate, transformation costs that we bring to the P&L. And for 2016, you see incremental growth overheads $200 million, that brings it down to the targeted 1.8 cumulative, DfX $1 billion, so that is also executing on what we said we would do over '14, '15, '16, so we're on track to deliver that.

And then you have the end-to-end productivity gains that's related to the Philips integrated landscape. And the good news is we have started with implementation in North and Latin America, and the first news is it's gone very well, and we intend to roll it out further. This will take some time of course.

Now, the operational improvement will drive ROIC growth. We measure ROIC growth as we report to all of you, on a 5 quarters MAT basis, yes, so hence the first half 4.4%, we add back the past incidentals that will fall out of course progressively as we move further in Q3 and Q4.

Operational improvement added to that, the separation costs will be deducted, and that brings us to a over 12% return on invested capital slated to take place in 2016.

Our business has a good -- very good cash conversion capability, and we will drive further improvements. So we'll drive further on working capital improvements, we're working with suppliers to partner with them, to make sure that we can utilize optimal supplier credit.

We have a consumer financing arm, it's not a bank, it's called Philips Capital, that helps with financing, and not taking it on the balance sheet, but through a fine network of financing partners, to drive business growth through financing solutions, which works very well, and then as I said already, the Philips Excellence program.

The bottom part of the page talks about the CapEx intensity. This will decrease over time. As you know, we are reducing the conventional footprint gradually, yes, and the LED business is not that CapEx intense.

As we're moving more to systems and services, the CapEx needs from the past where Lighting was, where it was also largely driven by the luminous automotive business, the components part upstream will slow down.

Also, in [HealthTech], the CapEx needs are not that high, because what you finally end up with differentiating on in the asset base, is final assembly and testing, and that is not the most CapEx intense part of the business.

Let's talk about the separation. The separation is on track. Frans already mentioned this. This is a complex separation of highly integrated operations, so even though this is not the classical disentanglement, there is of course a lot that we find that is entangled in unwinding the two companies and setting them up fit for purpose, each with their own legal structure, their IT infrastructure, their tax financing infrastructure, real estate.

It is a very, very large and intense project. But we're on track. So the creation of the optimal infrastructure for both companies is what it is that we're after, so it's not just disentangling, but also making sure that we're then fit for purpose, both companies, yes, fairly set up.

You can see here, most of the legal entities have been incorporated, almost all of them. We have completed the organizational separation, and in the process we have also implemented a Lean operating model that relates to the fit for purpose setting both organizations up with the right cost structure going forward. And of course we are in the midst of separating the assets and liabilities of IG&S, right, that's a real separation, like the IG&S costs will be a real split.

So what are the next steps here? We will further optimize the IT systems, yes. That is a very big step, and without the IT infrastructure, basically it will be very difficult to create a stand-alone entity, so that's a real gating item.

We aim to have the companies legally separated, or Lighting separate legal entity, by February of 2016. So we're on track for that too, and we will report in the new structure as of Q1. So as of Q1, over the results we will report in the new external segment reporting structure. I will elaborate on that in the next slide.

So of course we will report for the full year in the current structure. After we have reported in the current structure in January of next year, we will publish a pro-forma on the web in the new structure, so that ahead of the Q1 results you will already get an inkling of what the reporting would have looked like if we had the new structure already in place in 2015.

And that is what we always do, so this is not something out of the extraordinary when we divest businesses, including restates. And as already said, we are reviewing all capital market access possibilities for Lighting, and Robin has already qualified in the beginning what that means for this closure particularly also in this meeting.

Now on the new reporting structure, here depicted is the new segment reporting, where in the dotted line box, other reporting segments, of course we have the group, then we will also report on HealthTech.

Lighting is a segment, and then we have 4 healthcare business segments, Healthy living, in which] Personal Care, and Domestic Appliances, Prevention and Home care, with of course a Sleep &Respiratory business, the Personal Health Solutions business, the new wearables business.

I don't know how many of you were in theIFA a week ago, 10 days ago, very, very exciting, we have been able to see what we're doing there, and of course the health and wellness business, a great franchise, particularly around auto care.

And then Diagnosis and Treatments, which has the diagnostic imaging part of the business, as well as Image Guided Therapy business, yes, and that part is on Diagnose and Treatment. Then we're moving to the right, monitoring informatics and Connected Care.

On the day will be the business of Patient Care and Monitoring Solutions and Healthcare Informatics Services and Solutions. So that's the basically undercurrent to manifest the Health Continuum, yes? You can see what we have done here has more or less reflected the Health Continuum.

We're charged with healthy living, prevention, diagnostics, treatment, recovery, and home care, yes, with the clinical backbone and all the informatics underlying, yes, and monitoring to help manifest and get the whole Health Continuum connected, and this is how we will report.

We will report lighting in one segment, yes, this is now -- and that is now ahead of basically keeping all options open, including IPO. And then there will be some Corporate Items. The corporate items will be legacy litigation, as you can see, old cases, stranded costs as you can see, and the separation costs.

So what you can also then see is IG&S as we know it, particularly the overhead part, is basically separated out, split up into HealthTech and Lighting Solutions, yes, so the segments will include that part of the business.

To give you an idea on the idea split -- and it's a real split, it's not an allocation, so we've gone through meticulous and granular meetings, reviews, granularity, to get it done. So you know the IG&S reporting segment as we currently have it, so I've depicted here for you where were the revenue for.

So the revenue in IG&S currently is particularly IP-related, that will stay with HealthTech. Then you have cost innovation over it and service units, that will have a split of 85% for HealthTech, and 15% for Lighting. Other legacy as I said , will be in corporate items, and if you do that, on an adjusted EBITA basis, if that is 100%, 45% will be HealthTech, 35% Lighting, and 20% Corporate Items, in the reported EBITA 25%, 25%, and 50% respectively, yes.

Also of note is that the ideal split then is a reported EBITA margin impact of minus 1.3% for HealthTech, and 2.4% for Lighting. This is indicatively and pro-forma, so directionally I think it's right, but of course as we're not 100% separated yet, the number is not 100% crystal out yet, but I wanted to give you an inkling of what it's going to look like.

Creating two fit for purpose companies, yes, after reporting on separation and the split of IG&S, how are we driving these two fit for companies towards value creation? Of course the Philips Business System that we have elaborately reported on since inception, is part of the accelerate program and transformation is at work.

So the separation is because of accelerate, and the Philips businesses then will drive value creation repeatably as a model in both companies. There are other market opportunities that we are capitalizing on, with a strong IT backbone, a good customer financing support, and growth opportunity, and a great solutions organization.

The way to manage that, and you're going to hear more of it, is after doing the large-scale projects, to make it an integrated part of your organization. More of that to come. We will complete the Volcano integration, and realize the synergies, the very complementary synergies, as we're now in systems and devices in image guided therapy. That's a great asset to have.

And then of course we're going to share on an equal basis, on a fair basis, the liabilities. You can see here, the balance sheet will be provided from Q1 2016 onwards. The other liabilities in that will be split based on originating entity, that is fair, existing debt will stay with Royal Philips, and the majority of the deferred tax assets will stay with Royal Philips, yes.

A word on capital allocation, we will continue to invest in organic growth, to strengthen each business, and there's many opportunities along the lines Frans has outlined for you. We will look more into M&A, particularly geared to HealthTech, and we'll do that very disciplined.

We're committed to a strong investment grade credit rating. For the group now, current policy, we're not altering it, because we're not separated yet. Is the current policy 40% to 50%, pay out of continuing net income, and we're slated to complete the share buyback that we started in October 13, by 2016. We're more than halfway in now, yes.

Key takeaways therefore, challenging environment, deteriorating in certain growth geographies. ForEx impact is there, we continue to drive operational performance, accelerate is at work, so separation is one thing, transforming is another, and improving is yet another. And we're doing it all.

Reported or adjusted EBITA margin, 11% in 2016, coming from 9% end of 2014. On track for the separation, and we will report in a new structure as of Q1 2016 onwards. This is what I wanted to share with you in the financial update. Thank you for your attention. Pasquale, may I ask you?

Pasquale Abruzzese - *Royal Philips - Chief of Operations*

Thank you. Good morning, everybody. Great pleasure to be here to just give a little bit more detail on what our path to operational excellence is, and where we are. I want to just remind us here of Philips Business System. So we've mentioned it a few times.

But the essence of the business system is how we operate differently, how we build our performance and growth culture. That's why it's a multi-year journey, where it takes time to do that, you don't just do it by saying it, we have to practice it, we have to lead it, we have to build it, we have to continuously learn, and it's a multi-year journey.

But I think we've made great strides, and today I'm going to show you some of the initiatives we've got around making ourselves better every day. So on the operational excellence side, I split into three buckets, or we want to look at three buckets.

One, the quality and compliance side to better serve our customers. The operational excellence side by bringing PBS to life and getting speed and agility in everything we do. And also we've got fairly detailed cost reduction programs.

It's key to understand I believe there is not one before two then three, but we have to push all three at the same time. So quite an expansive approach to becoming operationally excellent, not just doing one or two things here.

I'm going to go into detail now in these three areas. So on the quality and compliance side, you can see down the left that we're building a foundation, and we're getting towards a state of what we call actions along all that axis, okay.

There's tight governance now with one central quality model, so one function, one leader, and a leadership team direct line. There's a quality management system that we've designed and implementing that gives us real-time data and corrective actions.

So key to the quality management system is finding the issues quickly and correcting them. And we're engineering that as we go. Again, not one step to get there, multiple steps, but we've made strides along that path.

We've injected talent. We were lacking in certain capabilities, if you look at the top 200 team within the quality and regulatory field, 40% are new, and our leadership level, so the top 12 people are sort of quality and regulatory, 70% new.

We've injected in capabilities, a lot of them from the medical device area, aerospace, and also automotive fields. We're doing leadership led quality training, where leaders, including myself and some of the folks you've seen on stage so far, get up and talk about the business system, about Philips and what quality means to Philips, before getting into the technical details of what we need to do to become a quality organization.

We've also boosted an internal quality audit function with the idea of preventing, or finding issues, and putting in corrective actions before we have outside parties come in and do some of that for us or with us. So we've boosted that in the last 12 months or so, too.

And most importantly, I think, is that quality is led from the top from Frans down and his whole direct team, we rigorously look at quality. We don't think the quality is a function that we tag on at the end like a policeman type function.

But we build in quality to all our processes every day. It's an attitude; it's a leadership behavior which we're heavy on bringing through the organization. Let me just deep-dive Cleveland now. So we've gone from remediation to operationalizing the Cleveland plant. Four areas that we focused on were the new production and process control, architecture, the product development and launch process, the cultural change driven by transparency and visibility, and rewarding almost the finding of problems, I would say.

And in the factory itself, single piece flow and Lean factory processes accelerated in that we redesigned the whole -- the whole factory in one year right from a white sheet of paper. So we brought in these concepts right from the start. Actions over that period, 250 quality system procedures rewritten with work instructions onto the floor and into the value streams.

A revised design validation and improved supplier controls process, launched a cultural training program where everybody on site, 750 people, went through a two week program of just understanding customer quality and how to build it in. New structure and cross-functional organization. We redesigned the factory with predictable production processes. Some of the impact of those actions. A quality management system that was certified in January, 2015 by third-party.

We improved warranty by 35%, the cost of warranty. 100% of the supply is recertified. And we've put in much tighter processes to proactively identify issues. And here, as I said earlier, we've -- we encourage everybody to stop the production or stop the process if there's a suspicion of a quality concern. It's a little bit of an overkill, I would say today, but we're very cautious that anything we find we act upon.

So we encourage the whole 750 people on site in Cleveland to do that every day. And we do have instances where we've stopped things and had to go and in -- with work out what's happened. We trained all hundred -- 750 employees in the quality plan. And as I said earlier, or well, there's 40% of leadership new on this -- on the site here. 5 of the -- there's 65 roles in total, 55 of them replaced in quality.

We're about 80% or so the iCT backlog shipped today. And we increase line capacity to get -- to be able to get rid of some of his backlog by 60% as we redesign the factory flows. OK? So quite -- quite an activity going on in Cleveland to give us robustness in output from our facility. Going to the second booking from my earlier slide in operational excellence. This focuses on getting the right skills at the right level.

So part of PBS -- Philips Business System -- is Philips Excellence -- Philips Excellence is how we operate. How we ask people to behave and operate differently. There are certain practices that we've defined. You can read some of them -- they're process management, performance management, project management, change management. All of it underpinned by what we define as continuous improvement, which is really Lean and Six Sigma.

We've -- we, on the continuous improvement side, we've defined 12 very precise tools that we've got spreading across the company from top-down, really understanding those tools and how to apply them. So quite a defined curriculum of learning and the pyramid -- the learning pyramid that we have there really shows the -- or an awareness level. So these curriculum are an in e-module fashion where three to five hours' worth of work takes you through the curriculum with a test, with a certification at the end.

We see we've gone from 12,000 to 30,000 with an ambition to get the 40,000. So the majority of the Health Tech of folks with email access with computer access to go through that. And we've built the practitioner level and the expert level on top of that and you see the pyramid. Practitioner, probably two, three weeks worth of training, six months worth of certification, to be able to practice with these practices very well.

And expert level, here we've combined internal, let's say Phillips folks from inside, and brought them through. As well as injected in some talent. Because we wanted -- we wanted to bring in the expert level to a -- to go faster, we've injected in that level with this external benchmark as a -- as a view of where we want to get to. OK? So all the companies like Danaher, Honeywell, Toyota, have taken 15 to 30 years to become very good and very excellent and bring to life their business system.

We don't want to take that long. We're injecting in and building capabilities at a faster pace than you would naturally do so. So with a very structured program and measures of each level of how we build that. A little bit of a deep dive on the factory. So we've got a -- we've had a lean deployment program for a number of years. It's continuously evolved over the last four or five and got better and better.

What this really shows top left, there's a maturity, let's say, phase zero embryonic, phase five mature. So we want everybody to get to phase five. At phase five there's lean thinking happening in the site. There's natural learning and an improvement ideas coming out everyday with a -- with a [head in] per dollar improvement in productivity. And you can see that at the moment we're at 16% of our sites at phase five.

In 16, we plan to get to 50%, 52%. And the graphs at the bottom depict that in the 15% that we've done so far in the last two or three years, we've gained these types of improvements. 10% in delivery reliability, defects out of the door down 75%, productivity within the four walls up 65%. A huge work in progress reduction of 60%. And most importantly on here for me is the Kaizen ideas.

We've gone up to 200%, so these are where we're encouraging everybody to give ideas and improve the site to drive the other KPIs or the metrics that you see on here. And it gives you the healthiness of how where the site is. And we're really measuring how many ideas are coming through, how many do we implement on-site. A lot of these ideas are not big capital intensive ideas.

It's just the site self-helping itself generating continuous improvement every day. And getting this spirit of being able to resolve issues and improve on a daily basis. The next are I'd like to go into is procurement. There's been a significant procurement transformation over the last four years or so. We're on track to achieve the $1 billion as Ron mentioned earlier.

And here I just want to give a little bit more detail of where we are in doing that. So Design for Excellence, cross-functional teams looking over the value chain. We started by looking retroactively at the product we had and going in and saying how could -- how could this be better designed and cheaper at the same time. We got great results from that.

That now becomes the -- how do we design in cost and quality and reliability right up front? And that methodology is going into the new product development and launch procedure that we have to ensure that that converts into getting it right first time, I would say. Supply development, a structured approach to getting into some key suppliers and effectively helping them become lean and understand how their business runs and how their people operate.

And from that they become stronger, we take some rewards too. So quite an intense program on that. Negotiation factory is just a centralized process of looking at how to negotiate real work -- leading-edge tools, and bringing up -- bringing together the whole procurement function up to speed and certified in negotiation. E-sourcing platform, really a platform to facilitate e-options so as we can tender much quicker and eliminate waste in that process, too.

So quite developed and going much faster with our sourcing and given us flexibility on moving -- or making sourcing decisions in a faster way. Additional activities apart from in the factory and in the supply, few that I'd like to mention here. We've simplified the organization structure over the last year -- two years now, year and a half. We've gone from 13 layers to 10 and we intend to get to 8. Like that, being flatter top down, faster, leaner, cheaper, at the same time.

So a whole exercise in getting there. The enabling functions which are predominantly IT, HR, finance, and real estate, we've got benchmark -- accurate benchmarks by function and a whole plan by function of how we get to that benchmark level over the next two or three years. And that's not just a top level number. If I -- if I look at IT, then I directly look after, we've gone in by sub-function of IT, and within processes within IT, like IT delivery, and saying how much does it cost us?

And how much is it costing in numerous benchmark companies. And like that, it gives a hint of where to go and improve our processes and make them much more effective and efficient. We're standardizing end-to-end processes for speed, in that we're redesigning processes end-to-end supported by a new IT. We call it the Philips Integrated Landscape. That will rollout over the years. And that gives us a lot of things but one of the main things is a transactional back office that is standardized and therefore we're able to move it to where we want to.

And Lean it out. That's the last bullet which is the centralized global business service. I like to think of that as industrializing the back office. Getting to a much more defined larger set of hubs where you run it just like a factory. Input, output, effectiveness, and quality of the transactional back office. At the same time, global footprint, so we're looking at how much footprint we've got both in the factory side, the distribution side, and other offices that we have. And really got our arms around how to get much leaner to larger scaled hubs. Over the next few years we'll be moving there.

So in summary, we have a clear program with a real structured approach to quality. We're building capabilities across the organization not just in one function or another. Lean factory deployment is positive. We've spent years engineering a system that is scalable and we're moving that way over time over the next year or so. At the same time, we start looking at the sales process, R&D process, and applying lean methodology in those areas too.

The procurement transformation is on track. We're striving towards and made first steps towards a simpler organization built around end-to-end processes. There's a lot more to come, and as we -- as we bring this together I can see all this dropping to the bottom line over the next few years. So thank you and I'd like to invite Ron and Frans up for a Q&A.

QUESTIONS AND ANSWERS

Frans van Houten - *Royal Philips - CEO*

Thanks, Pasquale. Well, let's start right in the middle here. Martin.

Martin Wilkie - *Citi - Analyst*

Thank you, it's Martin Wilkie from Citi. A couple of questions. The -- on the targeted M&A you talked about, perhaps if you just give a little bit of detail as to how big those acquisitions might be. But also as part of Philips Business System, is the integration process, the acquisition processes, is that now complete? It sounds like the Volcano deal is going well, but obviously the challenge is in the past with Genlyte, Respironics, things like that.

If you could talk a little bit about the process for M&A. And the second question was, you've talked about investing for growth. I'm -- on the part is the portfolio, the HealthTech portfolio, that just aren't as appealing anymore. Other areas, perhaps some of the commoditized imaging pieces, where you're thinking about disposals. And could there be some talk to disposals as part of that M&A process.

Frans van Houten - *Royal Philips - CEO*

Yes. Well, thanks, Martin. o first of all, the Philips Business System, as Pasquale has explained, is rolled out everywhere, but it needs to mature. So we would not call ourselves masters yet in the Philips Business System, right? This is a learning curve for many years. And as we have learned from lessons in the past, old acquisitions, notably much too slow in integration, not immediately a rigorously implementing the PMI program.

We have taken a different approach with Volcano. Bert van Meurs, the leader of Image Guided Therapy, onto which Volcano is being integrated, is on top of that. We have a very detailed Gaussian approach towards the integration. And we -- this is also why we can report out that we are ahead of plan, right? So cost savings, and so on, cost sales opportunities, the sales forces are collaborated very nicely together. So both in cost and revenue level we see the benefits of this different approach to post-merger integration.

Looking ahead I cannot predict with great details, of course, what potential acquisitions may look like. We will be cautious, will be disciplined. It will need to fit the portfolio profile around the Health Continuum. We want to strengthen our existing businesses, therefore not necessarily only going into new stuff, right? It needs to reinforce each other. So careful selection of opportunities. And then it needs to be actionable, right? And we will not overeat ourselves.

So over the next years, we will consider doing bolt-ons. Now then the question I can already see it in your eyes, how big is a bolt-on? Volcano is a good proxy, right? And that doesn't mean that I will never come back to you with something else but at this moment with the knowledge that we have today, I would say that's a good proxy.

Disposals, well we are working on a very large load, so let's not get ahead of ourselves. This is very impactful. We want to do it right. I think we have demonstrated over the years that we will not shy away from taking a portfolio decision if we feel that we are not the right owner and we cannot add value. But I would like to say that today we do not see any business in our HealthTech portfolio that would meet that criteria.

So we are not planning any disposals so no speculation, please. Pasquale, please have a seat.

Yes.

Peter Reilly - *Jefferies - Analyst*

Good morning. It's Peter Reilly, from Jefferies. Two questions, please. Ron, you said several times there was no change to what you said at the second quarter, but at Q2, you had a 2016 reported EBITA margin target of 10% to 11%. It's now nine, so can you help me understand why that isn't a change from the second quarter. And then secondly, on -- you mentioned stranded costs on one of your slides. So clearly I guess going into 2016, still with some excess overheads. Can you help us understand the scale of the stranded cost and whether you'll be able to illuminate that during the course of 2016.

Ron Wirahadiraksa - *Royal Philips - CFO*

Yes. So at the end of Q2 we said that we would update the targets at the capital markets day. We clearly depicted that also in our communication materials. So in January we gave a new outlook on the targets. In -- we reiterated that up to Q1. In Q2, we had said Okay, this is the outlook that we gave in January, but this will be updated. On top of that, we gave you the separation cost outlook for 2015.

$200 million-$300 million, and also for 2016. Plus the restructuring charges that we normally have. So in our book we have not made any change, we just added up what we had already said before. Yes? So, that's how you get from the 11% adjusted to the 9% and in your book from the 10% to 11% to the 9%, yes? What is it, I'm sorry?

Stranded costs. Yes, there will be some stranded costs, and we don't think it will be very high. We were very good in working that away. You notice usually takes one to two years before we have managed that down. And it is related to a bit of the dis-synergies and stranded part that we see with

Lighting. But as we said, we're -- we've taken the approach of basically split and then fix. So with Lean operating model as I also articulated, we're addressing costs and setting it up in the best possible way.

There'll be some stranded costs.

Frans van Houten - *Royal Philips - CEO*

Good, thank you. Andreas.

Andreas Willi - *J.P. Morgan - Analyst*

Thank you very much, Andreas Willi, J.P. Morgan. First question on your longer term Health Tech ambition, the 400 basis points to 500 basis points margin improvement. Is that for HealthTech or healthcare in terms of the old definition, and what's the starting point, '14 or '15 or just the report -- just that we can put that in the right -- context. And second on capital deployment in the case you would get a larger upfront payment you for -- the Lighting separation -- is there something in there for share-holders up front as well? Or does it just mean you wait 3, 4 years for capital deployments who add on acquisitions potentially at -- initial evaluations of the much higher than your own and therefore basically shareholders need to wait four or five years to get the benefit from this acquisition?

And last question on Cleveland, we see you have make progress on the slide, you said you had 60% increase in -- in kind of -- what you can do there in term of productions plus you had invested, at this time, in other areas last year -- to compensate for the loss of Cleveland. Do you get the CT orders the moment so that can actually still run good utilization rate next year?

Frans van Houten - *Royal Philips - CEO*

Yes. Let's first clarify the midterm Outlook for HealthTech. I described to you the three main execution steps of the strategy, operational excellence improvements, growth -- organic growth, and the solutions build. The basis points relate to that bottom layer in that picture, and relate to therefore to HealthTech. That's not the only improvement that we see in health tech because the other two steps off, let's say -- boosting growth through innovation and creating these solutions will also contribute to improvement of both growth and profitability. The 300 basis points, 400 basis points are there to show what still is possible just by continuing with our operational excellence improvements.

And we have not quantified the other two steps, instead of the final slide of the HealthTech section, I gave to you overall outlook in the midterm, 4 to 5 years, of profitability that we aim to achieve. And there we spoke about an overall profitability of mid to high teens, so that is the -- target ambition level and a mid to high single-digit gross. If you then take that slide with the quadrants and the vectors on the various segments, you see that we aim to get all these businesses in the right upper hand -- quartile -- of that picture and that is where we would need to see the mid to high teens, EBITA, and the mid to high single-digit growth.

Your second point, which included some projection and judgment, if I may say, on, you know, what it means to shareholders when we get the proceeds of Lighting. I think we should not get ahead of ourselves, we first need to see how this will all pan out, what the market access for Llighting will mean, and then we will apply our capital allocation follow suite. In other words we will judge according to our capital allocation policy the right way to deploy and redeploy the proceeds of the Lighting standalone transaction.

And I think it would not be wise to start speculating on what that means, and neither, I think, would be -- could we say that any acquisition would be very expensive, I mean we should, I think take every case one step at a time.

Your final point on Cleveland, Pasquale can speak for you.

Pasquale Abruzzese - *Royal Philips - Chief of Operations*

Sure. Cleveland -- we have boosted capacity by 60%, it's not fixed cost we can flex down if we need to. We have to do that to get over the back log, so we're very accurately planning out, as all this come in, how to flex that capacity going forward.

Frans van Houten - *Royal Philips - CEO*

And then the second part of your Cleveland question was more commercial, right? You know, how are we doing these new orders. Well we don't detail out, of course orders, by individual business. We spoke earlier about the fact that Cleveland is introducing new products, most notably the IQon Spectral CT. And I'm happy to report to you that we have just gotten the 510K approval of the -- by the FDA for this breakthrough product.

And we expect that this will help us to re-establish our, you know, iconic leadership in the space. The -- Verios digital PET/CT is coming -- let's say shippable early in -- the next year. Next to, of course, the lineup of iCT and -- advanced molecular imaging that we will do. I can tell you that customers are responding positively to -- the remediation that we have done. And the sentiment also in North America has improved a lot. Sitting behind you are both, Brent Schafer, CEO Philip North America as well as Rob Coscella who is in charge of all these businesses.

And I'm sure that later today and we will be able to go further into these areas, please. First row here, the lady.

Daniela Costa - *Goldman Sachs - Analyst*

Thank you, it's Daniela Costa from Goldman Sachs. Three questions, this first one regarding, I think before you had mentioned underlying group margin '14 versus '15 that there was an ambition of 100 basis points which you then said it was quite challenging in Q2. So -- where you stand in that now?

And then the second thing regarding diagnostic margins and that error of the omissions going back to double digit, is it fair to say that -- or would you agree that, could you go back to where you were before, Cleveland, even if there is more to competitive environment in China?

And the -- third one just for clarification question, make sure I understood on Cleveland; before you had had commentary I think of 70% to 80%, being somewhere between 70% to 80%, in terms of capacity-- ramping up capacity, how does that tie with the -- data you've just shown?

Ron Wirahadiraksa - *Royal Philips - CFO*

Okay, thank you, I'll take the first one. So -- you ask about the -- how the basis points improvement for this year and where we are on that?

Well as I said, we aim to have modest sales growth, we are also aiming to drive operational improvement. As I also said, it's not, you know, the easiest thing to do with the new Forex headwind to grow geographies, particularly China, that -- have come down significantly versus earlier expectations.

We are working that also, by driving operational excellence, cost savings where we can, improved efficiency. So this -- will drive for improvement, what I'm saying is, you know, I can't guarantee, if that's what you're looking for that won't be the case, you know it looks as if we will be able to show slight improvement, but there are risks out there, you know.

Frans van Houten - *Royal Philips - CEO*

The expectation is that Diagnostic Imaging will certainly attain back historic margins, the cluster of imaging and -- the diagnostics and treatments, by the way, is more than diagnostic imaging, it also Ultrasound and Image Guided Therapy and Volcano.

Some of these businesses are actually, today, operating already in that desired quadrant of performance. The Diagnostic Imaging business is still carrying a lot of remediation cost, which depresses, let's say that current performance, even though, you know, we have seen volumes improve, and it is our conviction that, yes indeed we were able to get there.

What also is helping a lot, is the fact that besides hardware, you know, we add a lot of -- added value through, for example, anatomical intelligence software applications and new services.So we believe that the whole area diagnostics and -- treatment is a -- good market to be in, and that our strategy will help us differentiate from, let's say, a more commoditized environment.

I certainly recognize that that threat is existing and it is up to us to prove to our customers that they should not buy naked scanners but rather buy diagnostics solutions, and for us that is what we are after, that's the whole point around being a solutions provider.

Maybe the last point, again, Pasquale.

Pasquale Abruzzese - *Royal Philips - Chief of Operations*

We've installed 70% to 80% plus, we're running it a little bit cautiously as I alluded to. So we don't, you know, go for efficiency or go for output. We gleaned so far 60%s a good number but we can -- boost to 80% quite easily as we need to.

Frans van Houten - *Royal Philips - CEO*

Good, It's very unfair, there are so many hands. Why don't we start on the left side and stay there for moment and then we move back here.

David Vos - *Barclays - Analyst*

Thank you, Frans. David Vos, Barclays. Two questions from my side please. First, not to belabor the point but going back to the bridge, I'd just like to understand a little bit, if we look at what you've achieved in -- H1 in terms of operational improvement, that was 100 base points. You're looking to aim for 200 basis points between now and the end of 2016, yet volume by all accounts are perhaps going to be a little bit weaker, so might price be.

Where is the real, you know, delta coming from there? If you could elaborate on that. And then second question on -- the healthcare IT offering; That is clearly a big market and some strong growth coming out of it, as well. But we've recently seen quite some movements into that market as well. And I'm not just thinking about Google and Apple, it's also IBM and their Watson Suite by Merge Healthcare, how are you thinking about that competitive landscape there?

Ron Wirahadiraksa - *Royal Philips - CFO*

Okay, so as shown the 100 basis points is the operational improvement, some of it is taken away by Forex and, you know, a little bit of Cleveland. So the question earlier was, you know, well will you -- are be able to improve it, you know, perhaps slightly although there are risks, as I said. Many of the operational improvements is driven by, as we've shown, the effects program, which has this kind of a ramp also in it, you can see that. Additional overhead cost savings and the intensity of restructuring for that will be somewhat lower, so we get more net benefit. And of course the productivity savings are going to kick in, and that is on the back of the Philips Integrated Landscape.

So those are three key buckets, those are also the three key drivers of our productivity program that we always report on, double drive this, yes?

Frans van Houten - *Royal Philips - CEO*

The healthcare IT, or use a bigger word, population health is a vast area, and indeed it is attracting bees to the honey, with a lot of people making big announcements. We believe that our sweet spot is being close to the patient and close to the care provider. You could say we are in the last few yards to the care delivery pathway, right.

So you see population health companies, that data mine insurance records. While that's great but that's not us, all right. You see people doing analytics on vast data sets that may can -- maybe help governments redirect policy, maybe that's also not us. But what we are doing is using data to help the care delivery, to help doctors work together, to help doctors take the best decision for treatment, to monitor large amounts of patients in real-time, measuring hundreds of data sets and then supporting, let's say, the care delivery.

We are expanding into -- what is called coordinated care. You can think there about workflow management, you can think about -- collaborative cloud-based computing where we integrate device data with what professionals are doing. So very much in the care -- in the work stream of what care providers need to do, and enabling patients to take care of their own health.

We will do this in an open environment, you can use the Philips products and data assets but you can also extract data from Apple Health Book or others. We believe the world want to have an interoperable open environment. We think we have a strong strategy in that. Will we do this on our own, in isolation definitely not, we have a collaboration going on with Salesforce.com; as a -- strong player in cloud computing.

We work with other partners, this afternoon Jeroen Tas will take -- who is the CEO of Healthcare Informatics, will take you somewhere strong and compelling case on what we can do to help this world.

Carla Kriwet, head of our Patient Monitoring Solutions, again, will show how we leverage daytime informatics around the patient. So we need to carve out and -- we have, let's say, our own sweet spot in this vast market. Others that you mentioned, yes they will be competitors and I think this is going to be an interesting space.

It would be a mistake to believe that we are just starting, we are already a population health company. We are already in informatics company, we have a large business in this with everyday life.

I'm going to disappoint you because Robin as the master of ceremony has been waving his hand and there is -- probably 50 questions in the room, so I feel bad about that but then again we are together the whole day. So Robin back to you, for your master of ceremonies announcements. We'll be back here.