Co. reported 2Q15 comparable sales of EUR6b and net income of EUR274m. Co. expects modest sales growth for 2015.
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PRESENTATION

Operator

Welcome to the Royal Philips second quarter 2015 results conference call on Monday, July 27, 2015. (Operator Instructions). Please note that this call will be recorded, and is available by webcast on the website of Royal Philips.

I will now hand the conference over to Mr. Robin Jansen, Head of Investor Relations. Please go ahead, sir.

Robin Jansen - Koninklijke Philips NV - Head of IR

Thank you, operator. And good morning, ladies and gentlemen. Welcome to Philips' second quarter conference call. I am here with Frans van Houten, CEO; and Ron Wirahadiraksa, CFO.

In a moment, Frans will make his opening remarks and will take you through our main strategic and financial highlights for the period; Ron will then provide more details on the financial performance during the quarter. After that, both Frans and Ron will be happy to take your questions.

Our press release and the related information slide deck were published at 7:00 AM CET this morning. Both documents are now available for download from our investor relations website. A full transcript of this conference call will be made available by tomorrow on our investor relations website.

Before I turn over the call to Frans, I would like to remind you of two things. Following, the decision in June 2014 to combine our Lumileds and Automotive lighting businesses into a standalone company, the profit and loss of these combined businesses is now reported under discontinued operations; and the net assets for the business in the balance sheet on the line, assets held for sale.
The cash flow of the combined Lumileds and Automotive businesses is reported under cash flow from discontinued operations. Therefore, all commentary that will follow, in terms of sales and earnings at both the Group level, as well as the Lighting sector level, excludes the performance related to the Lumileds and Automotive lighting businesses.

Secondly, when we refer to adjusted EBITA on this call, this represents EBITA excluding restructuring costs; acquisition-related charges; and other charges and gains above EUR20 million.

With that, I would like to hand over the call to Frans.

Frans van Houten - Koninklijke Philips NV - CEO

Thanks, Robin. And good morning to everybody on the call. Our second quarter results were driven by strong comparable sales growth in Healthcare, and adjusted EBITA margin improvements in all three sectors; most notably, Consumer Lifestyle and Lighting.

While we are pleased with the continued improvement in our operational performance, and our results in the United States, Central and Eastern Europe, and India in particular, we remain cautious about the global macro-economic environment, especially in China; Russia; and Latin America.

With that backdrop, I will provide more detail on our performance in each sector, our Accelerate program, and the separation progress.

In Healthcare, comparable sales grew 8% year on year, and operational profitability improved, with North America making a significant contribution.

We continued to increase order fulfilment out of our Cleveland facility, and remain strongly focused on our considerable continued efforts to improve the quality management systems across Philips.

The remediation of the Cleveland facility is progressing well, but there is still more to do. The production volume of all Cleveland-related products is now at around 70% to 80%. We are, therefore, on track to deliver on our profit improvement plan for our diagnostic imaging business relative to 2014, and continue to expect Cleveland to positively contribute to EBITA for the full year.

North America delivered double-digit currency comparable growth in order intake, which was, however, offset by declines in order intake in China; Latin America; and Western Europe, resulting in a mid single-digit currency comparable decline in overall order intake. I do, however, want to indicate our overall moderately positive outlook on the healthcare market, and our strong competitive positioning across the health continuum.

We continue to make targeted investments in growth opportunities that will further strengthen our ability to capture a larger portion of the very attractive HealthTech market before us. In the quarter, for example, Philips and Westchester Medical Center Health Network entered into a multi-year $500 million managed services partnership to transform and improve healthcare for 3 million patients.

The agreement includes consulting services, healthcare informatics solutions, and medical technologies, and aims to improve all care areas, including radiology; cardiology; neurology; oncology; and pediatrics.

For Philips, these types of long-term partnerships generate recurring revenue for multiple years, and consist of several streams, including the delivery of medical technologies and clinical informatics solutions; as well as consulting, maintenance, and educational services.

In such long-term partnership, hospitals have, for example, been able to significantly improve radiology productivity, patient outcomes. And one particular customer is, for instance, seeing a 35% reduction in costs, while improving clinical quality.

In addition, these strategic partnerships often lead to incremental business, as demonstrated by the extension of our existing 10-year managed services partnership with the St Maartens clinic in the Netherlands, which was recently extended by five years.

The new agreement now also includes ultrasound and healthcare IT services, in addition to current access to radiology solutions.
We also continue to pioneer and lead in the emerging digital pathology market through the digitalization and management of data generated by imaging systems and patient monitoring devices.

Pathology involves, among others, the examination of patient tissue samples and plays a crucial role in the diagnosis; management; and prevention of a wide variety of diseases, including cancer.

Philips has enabled the Netherlands-based LabPON to become the first clinical pathology lab in the world to completely transition to digital diagnosis. Philips' ultrafast pathology scanner information management system and services will improve laboratory efficiency, quality, and service levels.

The application of health technologies for chronic care at home also plays an essential role in reducing healthcare costs, while improving patient care.

Philips and Banner Health in the United States announced the successful results of their at-home Intensive Ambulatory Care program for patients with multiple chronic conditions. Through this joint telehealth program, Banner Health achieved 27% cost savings, driven primarily by a 45% reduction in hospital re-admissions.

Let me now turn to Consumer Lifestyle. The Consumer Lifestyle sector continues to perform well. The anticipated below-average comparable sales growth of 3% year on year came on the back of the exceptionally strong growth rate of 10% in Q1, and several new product introductions drove high sell-in.

In the second quarter, double-digit growth at Health and Wellness and high single-digit growth at Personal Care were offset by a mid single-digit decline at Domestic Appliances. Averaging out this phasing effect between Q1 and Q2, the average growth rate of 6% for the first half remains well within the range of mid to high single-digit growth.

Market share positions across our Consumer Lifestyle offerings improved in multiple geographies, most notably in North America; China; and Europe. And we continued to deliver excellent results in Oral Healthcare and in Mother & Child Care. This is the result of our ability to offer locally relevant products and innovative health and wellbeing solutions.

The Philips Sonicare DiamondClean toothbrushes, as well as the Sonicare AirFloss Pro, are great examples of that. Our new launches were very well received in North America, China, and across Europe.

Philips Avent further built its leadership position in Mother & Child Care delivering double-digit growth, with exceptional performance in North America and China.

Let me now switch to Lighting. Sales in Lighting declined 3% year on year on a comparable basis. We continued to drive strong sales growth and improved profitability levels in our LED business; and, at the same time, we successfully sustained the attractive cash and profitability profile of our conventional Lighting business, despite its mid-teens decline in top line.

Geographically, China, our second biggest lighting market, remains very challenging, driven by the macroeconomic slowdown; tight liquidity; and a very weak construction market.

We are making progress with the turnaround in North America, but we saw the PLS market softening in some European countries and we have noticed a different phasing of certain large projects in our growth markets versus last year. We, therefore, believe that the slowdown in growth in Professional Lighting Solutions overall, as witnessed in Q2, is driven by the market and some seasonality.

We have great portfolio of solutions and systems, such as the extended CityTouch connected lighting management system, which is using mobile and cloud-based technologies now in use in Los Angeles.
Our credibility with distribution channels has improved in North America. But with most of the change behind us, we are focused on further restoring confidence with our remaining distribution networks with new management building closer connections with our customer base. And we are confident that our initiatives to improve performance will take hold, but this will take time.

We are also building strategic partnerships in North America with new installations of our cloud-based Connected Lighting Solutions at Madison Square Garden; the new New York Bridge in New York, which replaces the Tappan Zee Bridge, for example.

And in the French city, Lille, Carrefour will install 2.5 kilometers of Philips LED lighting that uses light to transmit a location signal to shopper’s smartphone, triggering an app to provide location-based services. This enables Carrefour to provide new services to its shoppers, such as helping them to navigate and find the right products and promotions across the 7,800 square meter shop floor.

It is the world’s largest connected lighting indoor positioning system for retail, and it reduces the total lighting-based electricity consumption of the hypermarket by 50%.

Philips’ indoor positioning system consists of LED fixtures, a cloud-based location database, and a Philips’ software development kit, upon which customers can build their mobile interaction platform. The applied patented technology transmits a unique code through light that is undetectable to the human eye, but can be simply detected with a smartphone camera, without the need for any additional accessories.

In Italy, we have installed our CityTouch remote street lighting management system across three historic towns: Citta Sant’Angelo, Cison di Valmarino, and Varmo. Seven thousand of Philips’ CityTouch connected LED streetlights will enhance the visibility and safety of these historic towns, while saving 70% energy over conventional lighting.

Let me now turn to our Accelerate program. In the second quarter, we continue to enhance customer centricity and customer service levels to drive better cost productivity and faster time to market for our innovations, and continue to invest in quality upgrades.

In Healthcare, for example, we optimized end-to-end processes at one of our Volcano manufacturing facilities by running continuous improvement Kaizen events that led to a reduction of more than 80% in lead time, and 50% reduction in work-in-progress inventory for the improved lines.

In Consumer Lifestyle, we successfully launched a high performance range of rice cookers in China with a 30% faster time to market. This locally relevant value proposition drove strong customer preference, resulting in a 4 point market share increase since its launch.

In Lighting, we significantly reduced supply chain complexity and optimized the processes in the United Kingdom that led to a 60% reduction in lead times for product configuration and delivery. This also drove a 50% increase in the total value opportunities in the sales funnel, and a high single-digit growth in order volume.

Our three productivity programs continued to deliver strong support for our underlying operational performance improvements. In the quarter, we took out EUR60 million of overhead cost, EUR84 million of cost of goods sold; and our end-to-end productivity program achieved incremental savings of EUR36 million in the quarter.

Our separation progress is progressing well. We expect to transition the Lighting business into a separate legal structure by February 2016, in order to complete the separation in the first half of 2016. Next to an IPO, we will explore strategic alternatives for the Lighting business, including a private sale.

We previously estimated that we would incur about EUR300 million to EUR400 million of separation cost in 2015. Now that we are half way through the separation process, we expect to incur EUR200 million to EUR300 million separation cost in 2015, and EUR200 to EUR300 million of separation cost, including related restructuring, in 2016; and this will, obviously, impact reported EBITA in 2016.
As part of the separation process, we also intend to implement a new reporting structure for both HealthTech and Lighting Solutions from Q1 2016, onwards. As part of this process, we intend to provide historical pro forma comparable numbers under this new reporting structure when we announce our full-year 2015 results, in January 2016.

We will continue to provide more information about the separation process through regular updates over the course of the year.

As you know, we signed an agreement in March to sell a majority stake in the LED components and Automotive lighting business to a consortium led by GO Scale Capital. As additional time is required to complete all regulatory approvals, we are now working towards closing this transaction in the fourth quarter of 2015.

Turning to the outlook, we continue to make good progress in improving the fundamentals of our operational performance, and our separation process is progressing well. But we also recognize that we still have a lot of hard work to do.

Moreover, we are concerned about the global macroeconomic environment; and, in particular, about certain end markets, like China, Russia, and Latin America.

Looking ahead, we continue to expect modest sales growth for 2015, as well as improved operational performance for the year.

While we are concerned about the impact that the more challenging global macroeconomic environment is having on our results, we expect continued operational performance improvement in 2016, reinforcing the underlying strengths of our businesses.

We intend to provide more details about the performance trajectory for HealthTech and Lighting Solutions at our Capital Markets Day, on September 15.

With that, I will turn over the call to Ron to discuss our financial performance and market dynamics in more detail.

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Thank you, Frans. I will now provide you with more detail on our financial performance for the second quarter, and recent developments.

Comparable sales in Q2 2015 increased by 3% to EUR6 billion compared to last year, and adjusted for currency and portfolio changes.

On a nominal basis, total sales increased by 20%, driven by positive currency translation effects of 14 percentage points; and 3 percentage points of consolidation changes.

Our mature markets grew comparable sales by 3%, driven by 3% in North America; 1% in Western Europe; and 9% in the other mature markets, most notably, Japan, South Korea, and Australia.

Sector wise, in the mature geographies Healthcare grew mid single-digits; Consumer Lifestyle low single-digit; and Lighting declined low single-digit.

In our growth geographies, comparable sales also increased by 3% in the second quarter with double-digit growth in countries like India, Indonesia, Poland, and Mexico being offset by sales declines in countries like Russia; Brazil; and Saudi Arabia.

Sector wise, in the growth geographies sales growth was driven by double-digit growth in Healthcare; and mid single-digit sales growth in Consumer Lifestyle, which was partly offset by a mid single-digit sales decline in Lighting, driven by continued challenging market circumstances in countries like China and Saudi Arabia.
Let's take a closer look at the order intake. Currency comparable order intake decreased by 4% year on year. North America delivered mid-teens order intake growth; while Western Europe showed a pause with a low single-digit order intake decline in the quarter, on the back of a strong year-on-year comparable strong first quarter.

On the other hand, orders in Japan remained stable year over year, reversing a period of five quarters of declines.

Let me now provide you with some additional details about the shift from conventional to LED in the second quarter. Our LED sales increased by 21% year on year and now represents 40% of total Lighting sales, compared to the 34% in Q2 2014.

Sales of our conventional lighting portfolio declined by 16%. While the profitability of the LED business continues to improve, the rapid shift from the relatively more profitable conventional base to LED creates a negative mix impact for the profitability of Lighting overall.

Moving on to the EBITA development in the second quarter. Slide 16 of the presentation material that we posted on our website this morning provides an overview of the main drivers of adjusted EBITA when compared to the same period of last year.

Adjusted EBITA of 8.4% was 50 basis points higher than in Q2 of last year, driven by 140 basis points improvement in Lighting; 130 basis points in Consumer Lifestyle; and 20 basis points in Healthcare, notwithstanding negative currency effects.

Our underlying operational performance, therefore, contributed 170 basis points to the EBITA margin in the second quarter, which is a clear demonstration that our Accelerate program continues to improve operational performance, and drives efficiencies supported by our three productivity programs.

In the fifth bar of the bridge you will see a net contribution of EUR34 million from our overhead and End2End productivity programs.

Year on year, gross overhead cost savings in the quarter amounted to EUR91 million; and our End2End productivity program generated EUR36 million of savings year on year. These gross savings were partly offset by an increase in non-manufacturing costs as a result of investments in Healthcare Informatics, Personal Health Solutions, the Healthcare incubator, and quality.

Design for Excellence, or DFX, which is aimed at reducing costs of goods sold, delivered EUR84 million of savings year on year. These cost savings, and a positive impact from volume and mix, were able to more than offset 100 basis points in wage inflation, and a negative price effect of around 200 basis points.

As I said, the 170 basis points operational improvement was, to a large extent, offset by a currency headwind of EUR16 million, or 140 basis points in the margin, mainly due to seasonality in US dollar sales; coupled with the higher dollar cost footprint, as well as an adverse swing in the Chinese yuan.

The remediation of Cleveland started to contribute 10 basis points to the margin year on year.

Bottom line, we generated a net income of EUR270 million in the quarter, compared to a net income of EUR243 million a year ago. The increase is mainly driven by higher operational earnings as a result of higher volumes, and overhead cost savings, as earlier mentioned.

The return on invested capital, which is calculated on a five-quarter MAT basis, was 4.4%.

Excluding the Masimo provision in Q3 of last year, and the addition of provision of the CRT antitrust litigation we took in Q4 of 2014, the ROIC was 8.1%.

Inventory as a percentage of sales on a constant scope of consolidation increased by 110 basis points to 17% year on year, but were down 30 basis points versus the preceding quarter.
Excluding the negative currency translation effects and changes in scope of consolidation, inventory as a % of sales were up 10 basis points year on year.

In the second quarter, we had an outflow of free cash of EUR30 million, which includes the cash dividend payment of EUR253 million; and an outflow of EUR73 million related to the settlement payments in connection with the CRT antitrust litigation.

By the end of the second quarter, we completed 59% of our EUR1.5 billion share buyback program.

We continue to take a disciplined approach to capital allocation that allows us to fund growth, while maintaining a solid capital structure.

Looking ahead, we are, as Frans mentioned in his remarks, concerned about the global macroeconomic environment, and particularly about China; Russia; and Latin America.

Growth in the US healthcare market is supported by an increase in procedures, a relatively solid economy, and new enrollees through the Affordable Care Act.

On the downside, hospitals continue to fight reimbursement pressure, payer mix changes, and adjustment to new payment models replacing traditional fee-for-service payment. Currently, the growth drivers outweigh these headwinds for providers, leading to expected 2015 market growth in the low single-digits.

Healthcare CapEx in the US is forecast to remain flat in 2015 versus last year, although a new hospital construction is expected to grow by mid single-digits.

In Europe, market growth expectations for healthcare are tempered following an exceptionally strong 2014. The European healthcare market is, therefore, now projected to remain stable, or show a slight decline in 2015.

In China, headwinds related to the government’s anti-corruption measures, and efforts to favor domestic innovation, centralized tendering, and price erosion, will continue to impact the Chinese healthcare market in 2015 and is, therefore, expected to limit the growth of the Chinese healthcare market to low single-digits, with little change expected in the second half of this year.

Overall, we estimate the global healthcare market growth to be in the low single-digit range for 2015.

The overall US construction market is expected to grow high single-digit in 2015, of which non-residential construction is forecasted to grow around 10%. The Architecture Billings Index continues to point to growth in the non-residential construction market, as well.

The Western European construction market is forecasted to grow low single-digits, reflecting a slight improvement versus 2014, and largely driven by a slight pick-up in non-residential construction. Nevertheless, overall sentiment and market expectations in Europe remain quite uncertain, and vulnerable, so we remain cautious.

We continue to expect IG&S to show a net cost of around EUR450 million at the adjusted EBITA level for full-year 2015.

At the reported EBITA level, we now expect a net cost of around EUR750 million in IG&S for the full-year 2015, compared to the previous guidance of EUR900 million. The EUR150 million of lower net cost reflects the shift of around EUR100 million of separation cost from 2015 to 2016, and around EUR50 million lower restructuring costs for 2015 than previously anticipated.

Let me briefly summarize, before opening the line for questions.
Our second quarter results were driven by strong comparable sales growth in Healthcare, and adjusted EBITA margin improvements in all three sectors; most notably, Consumer Lifestyle and Lighting. Looking ahead, we are, however, concerned about the macroeconomic environment, market volatility, and uncertainty in various regions.

We expect currency movements to contribute positively to absolute profits in 2015, with potentially still some negative impact at the EBITA margin level, due to a very strong positive currency impact on the top line.

Taking all this into account, we continue to expect modest sales growth for 2015, as well as improved operational performance for the year.

While we are concerned about the impact that the more challenging global macroeconomic environment is having on results, we expect further operational performance improvements in 2016, reinforcing the underlying strength of our businesses.

With that, let me now open the lines for your questions, which Frans and I will be happy to answer.

**QUESTIONS AND ANSWERS**

**Operator**
(Operator Instructions). David Vos, Barclays.

**David Vos - Barclays - Analyst**

Just one question, then, from my side. If we look at the market shares in Healthcare, I appreciate that order intake is generally lumpy, but it occurs to me that there’s a few quarters running now where you’re underperforming both GE and Siemens. How are we thinking on getting that market share back?

And the related question to that is, obviously, if you’re still sticking to your slightly higher price erosion estimates that you previously communicated; and if you could just repeat what those were exactly, that would be helpful. Thank you very much.

**Frans van Houten - Koninklijke Philips NV - CEO**

David, let me first comment on the market share. We are looking back at a tough 2014. We have taken a lot of measures last year with regard to management, with regard to quality management systems, with regard to, for example, the sales organization in North America.

And I see that we are starting to see the positive effects of that; and most notably in the United States, where we saw strong order intake, as well as sales growth. A small portion of that is attributable to the Cleveland manufacturing resumption, around 2%, which leaves ample of improvement for other regions, which I just described.

I think, all in all, we are reclaiming market share in that market. Admittedly, that was necessary, but I’m pleased that it is happening. And we talk about it here internally as we are encouraged to see that trend. It also leads us to say that we can expect continued operational improvement going forward, while hastening to say that we still have a lot to do to really further solidify and underpin that.

A big order like Westchester actually indicates that we have a strong broad-based portfolio of innovations. The Westchester customer takes all of our portfolio, healthcare informatics, consultancy, medical equipment, both on the imaging and on the monitoring side.

So I think there is nothing wrong with our Healthcare franchise, we just need to execute, and I think you’ve just seen the first glimpse of that coming back.
Now, at the same time, we have more work to do. If I give you some color on China, there, we see the market slowdown. Obviously, we also see there the emergence of local competitors that nibble at the market share, so to speak. And I think that is where all major companies will have to reckon with.

Our response on that is, of course, to also go in there with more a solutions-based approach, because that delivers better value for our customers. But it is, in the near term, something to reckon with.

So, encouraging step; more work to be done.

For price erosion, I'd like to hand to Ron to give a bit more color.

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**Ron Wirahadiraksa** - Koninklijke Philips NV - CFO

Thanks for the questions. Usually, we say it's 3% to 4% on equipment. We haven't seen it go outside that. It's tactically used when we talk about pricing. We use it tactically, of course, for selected modalities, selected customers, in selected geographies, also pertaining to the point, as you earlier made, on market share, and not that we're going to buy our market share back. But sometimes with good customers, we have to do a number of things, but we use that selectively.

So it should, therefore, have some limited additional impact on the Healthcare sector level. And for now, we don't see it outside the normally guided range that I quoted.

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**David Vos** - Barclays - Analyst

Thank you very much, that's very helpful. By way of follow up, digital pathology solutions looks very interesting, could potentially be quite a big market, I think. What's your internal estimates there for future growth? Are you booking revenues already? And crucially also, if you could hint towards where the margins would be versus, say, the average healthcare margin, I would appreciate it. Thank you.

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**Frans van Houten** - Koninklijke Philips NV - CEO

Yes, thanks for picking up on that. Digital pathology is one of our start-ups within the Healthcare incubator. If this would be a standalone company, I think people would be writing rave reviews about the strength of this start-up. Of course, you guys look at the totality of Philips and sometimes these start-ups are then not seen.

Yes, this start-up is already booking revenue. We already have 10s of hospitals using the equipment. The recent order in the Netherlands is where one pathology lab is entirely upgrading to the digitization, using our scanners, but also our management software and services, for analytics of tissues samples. And you can imagine that, that is attractive because then we create the whole ecosystem for digital pathology and not just hardware.

We are also making progress in other countries in the world; notably, in the United States, but also in Japan.

I'm very optimistic about the longer-term prospects of this start-up. At this moment, I cannot give you details on margin profiles, and so on.

Obviously, we are still investing. There is a significant R&D bill associated with this business; it falls under the IG&S results, where we have previously flagged that we have increased investments, and that has a negative drag on near-term earnings. I'm convinced that this will become a very attractive business, but it will still take a few years to have a meaningful bottom-line impact.
David Vos - Barclays - Analyst

Thank you very much.

Operator

Gael De Bray, Societe Generale.

Gael De Bray - Societe Generale - Analyst

The first question is on the currency impact. How do you explain the huge gap between the 14% positive FX impact on the top line and, actually, the negative impact you had on EBITA? So maybe could you elaborate on your net currency exposures, and maybe give us what's the existing mismatch between your revenue base and cost base in dollar terms.

And maybe as a follow up, with the new orders for Healthcare now declining low single-digit in Europe in the second quarter, I think that's probably the first time it is back in negative territory since 2013. Just how concerned are you by the decline in Europe?

And maybe, do you see a little bit more aggressive competition in Europe from the likes of GE, Siemens, Toshiba maybe now that some of the historically faster-growth markets, like China, are slowing down?

Frans van Houten - Koninklijke Philips NV - CEO

Maybe I'll take, quickly, the second one, and then I'll move to Ron. Yes, Gael, I wouldn't read too much in the European negative order intake in the quarter. We had a very strong first quarter, and orders come in lumpy, as you know, and we don't see any particular shift in market strength. We think we are performing strongly there.

Macroeconomically, Europe is certainly not yet out of the woods. There's still concern about the fragility of the macroeconomic recovery of Europe, and all first-half discussion around Greece certainly didn't help in reinforcing growth. But we feel strong about our market position.

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Yes, on ForEx, if you look at the footprint, actually, for the second quarter the footprint is the same as I explained in the first quarter, meaning we were short in Chinese yuan; we were short in US dollars. For the other developed markets and emerging markets, this time we were long; also, for the Japanese yen we are long. So there is no change there.

So, it's a matter of the footprint, also combined with seasonality. As I said for the US dollar, although you would expect a better positive impact, that would probably have to come in the second half of this year at prevailing rates. This is how I explain to you the impact.

Yes, I agree, if you look at EUR762 million, which is the top-line tailwind, and then minus EUR16 million in the bottom line, of course, also part of that is due to hedging, of hedges from last year that are expiring, then the gap seems quite big.

But the footprint of the Company is, as I just outlined, we expect some abatement in the second half, such that for the full year there will be, on an absolute basis, a positive impact in the P&L; and margin, as I said earlier in my call, maybe slightly dilutive.

Gael De Bray - Societe Generale - Analyst

Okay, thanks very much.
Mark Troman - BofA Merrill Lynch - Analyst

First question, just on the guidance for this year, you talked about modest sales growth, Frans. And I think on the last call, or last couple of calls, we talked about 100 basis points of adjusted EBITA improvement. I just wanted to check that's still the case. I guess, you did about 50 basis points positive in this quarter, and Q1 was obviously a bit behind, so I just want to check that 100 basis points.

And just a follow up on Healthcare, in terms of the book to bill, is that enough to sustain sales growth this year? Obviously, you've had a strong 8% in the quarter, do you feel you can get a reasonable level of sales growth in the next (inaudible) year in Healthcare (technical difficulty)?

Frans van Houten - Koninklijke Philips NV - CEO

Mark, already in April I flagged that it's going to be quite challenging to achieve the EBITA improvement.

We are laser-focused on operational results improvement in order to get as close as possible to our objectives. Despite these currency headwinds, you saw operational improvement coming through; that is good. Now, we also flagged the macroeconomic headwinds. So there's more work to be done, and we continue to make progress.

On the Healthcare side, obviously, the second quarter was very strong. We are more conservative in our overall outlook. We believe that we can see modest growth for Philips overall, and that takes into account growth from Healthcare, and I'd like to leave it at that.

Mark Troman - BofA Merrill Lynch - Analyst

Okay. Thank you very much.

Philip Wilson - Redburn Partners - Analyst

Thanks for taking the questions. Just two, please. Firstly, just on FX, given that previous commentary, you talked about the margin impact only being slightly dilutive. And given you're going to have an FX benefit to the top line of EUR2 billion, that requires a huge positive number in the second half of the year, between EUR150 million to EUR200 million. Is that the scale of absolute impact we should be thinking about in the second half for FX? And perhaps an understanding as to how that happens: is it because of the timing of hedging?

Secondly, just on Lighting, this business has now been in decline for about 3% for the last six quarters, or since you starting disclosure in this current state. Is this a business that we should be thinking about as now in decline at about that level of minus 3%, so with that structural decline? I understand you're doing a good job on the margin, but is it a business that declines at minus 3%? Or is there something that you think will help improve the top line in the future? Thanks.
Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Thanks for the ForEx question. Yes, the currency impact, if you add it up for the first half, it’s about EUR1.2 billion. So could go in the direction that you say. As I said, we do expect a tailwind in the bottom line, but you have to also remember what I said on the footprint.

The footprint of the Company is also under the influence of, for example, our Lumileds and Automotive that now is in discontinued operations. And they were long in dollars, so if you take that out then your footprint becomes more short. And some of the footprint, the other commercial footprint, if markets grow more in dollar, or dollar-related areas, the cost footprint is be a little bit bigger.

I wouldn’t say that we expect a massive improvement. And I also outlined already, and answered in the previous question, that it could be slightly dilutive to the market; break even to slightly dilutive, I would say.

Frans van Houten - Koninklijke Philips NV - CEO

Your second question, Philip, on Lighting I really would like to tell two stories there. On the one hand, we have our conventional business, which is declining. But it is a very strong business, strong on market share, strong on cost competitiveness.

We are 1.5 times bigger than our nearest competitor. And we have always said that, despite the technology sunset, this is a business with a long tail. And we are convinced that we will stay cash-flow positive in this business. So from an investor perspective, this is a cash cow, and a solid one, despite the top-line decline.

The second story is around our ability to build a great LED franchise. If you look at our LED business separately then you see it consistently growing, high growth LED business, 20% in the second quarter; expanding margins; a lot of technology that gives us big wins. For example, Carrefour that is now going to implement our LED smart lighting with GPS kind of location-based services technology in the shop to guide the shopper; our ability to win big cities, such as LA and Madrid, with connected lighting.

It just all indicates to the strength of our LED franchise. And the two together, I think, make for a rather solid business.

We cannot help it that the conventional market is declining. And it shields a little bit the improvement that we are making on the LED side. Of course, you see the strong operational improvement coming through in the second quarter, despite currency headwinds. So that’s how I would like to look at the Lighting business.

Philip Wilson - Redburn Partners - Analyst

Okay. And just to come back on the FX, can you give us, at current rates, a euro million number for the year that you expect from FX after the minus EUR20 million in the first half?

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

It’s very difficult to give you an exact number, because it swings up and down. Let’s say, at current ForEx, it should be above EUR100 million, slightly above.

Philip Wilson - Redburn Partners - Analyst

Okay. And just on the Lighting question, sorry, I understand those points you make. We should think about this being a business that’s in decline at the top line?
Frans van Houten - Koninklijke Philips NV - CEO

We will work very hard to grow the LED business as fast as possible. And we think that as we are more competitive on the conventional side that we have more staying power there. I'd like not to give an exact forecast on revenue growth, we normally don't do that; leave that to yourself.

Philip Wilson - Redburn Partners - Analyst

Okay. Thank you very much.

Operator

Ben Uglow, Morgan Stanley.

Ben Uglow - Morgan Stanley - Analyst

I had a couple of questions on Healthcare. First of all, Frans, can you give us a bit more granularity on the trend in the imaging systems business in North America?

You’ve got double-digit order growth in North America, how much of that is coming from imaging systems? And what’s actually going on in patient care? What I’m interested to know is, post-Cleveland, have you restarted that business across all modalities in imaging systems? So that was question number one.

Question number two is a much more general one about what the underlying, or what the real margin number should be; what true profit level is for the Healthcare business.

If we go back to December last year, and even in the slide presentation today, the reported EBITA target for that business is 16% to 17%. I think at the EPG conference, and elsewhere, you’ve talked about different headwinds between investments, Cleveland, price, etc., and what I really wanted to know is what is the size or what is the scope of those headwinds going forward; i.e., is this a small effect, 1 percentage point or 2 percentage points?

Or is it actually going to be far more material on an ongoing basis; i.e., is it a 3 percentage point, 4 percentage point, 5 percentage point line item? How should we think about Healthcare margins, going forward?

Frans van Houten - Koninklijke Philips NV - CEO

I wouldn’t call that just a general question, Ben; that’s a very sophisticated question. But anyway, let me talk a little bit around it.

First question is around the imaging order intake in North America. Yes, strong order intake. Low single-digit positive on imaging; a strong double-digit positive on PCMS and healthcare informatics. And that, in the aggregate, was a mid-teen order intake, positive, for North America.

Ben Uglow - Morgan Stanley - Analyst

Okay. And I realize it’s a slightly unfair follow up, but on the imaging in North America, was this all due to a re-launch in CT? Or have you seen underlying pickup in ultrasound, MRI, and PET machines, as well?
Frans van Houten - Koninklijke Philips NV - CEO

I think we have more work to do on the big iron modalities versus, let’s say, indeed, the strong franchise of ultrasound.

With regard to the trajectory of Healthcare, because I think that’s the question, how to look at the real margin development of Healthcare business, it’s something that I think we would like to invite you to our Capital Markets Day for.

We think that the underlying franchise of Healthcare is very much intact. There’s a lot of operational improvement possible. We had a big setback in 2014; it will take us time to recover from that. That may mean that we are behind on our original targets set out in 2013. I think that’s quite obvious. So being behind operationally on the plan that sets us back, even though over time we will recover that.

And then, we have, on top of that, the headwinds that are less favorable than, let’s say, what we originally anticipated: the currency, the macroeconomic slowdown in China, and some other countries. That affects at least the near-term outlook when it comes to orders and sales growth.

It leads us to overall, and now I go back to the overall Philips’ level, to be conservative in our outlook and say that we only see modest sales growth in the near term. That, obviously, takes all three sectors in the aggregate into account.

I cannot make it better than that. I think, I’m encouraged by the underlying operational results improvement. The trend is in the right direction. We work as hard as we can towards getting close to our targets. And that’s what it is for now.

Ben Uglov - Morgan Stanley - Analyst

Thanks. Well, look, I’m going to try one more time on this. And I realize that you want to keep things behind until the Capital Markets Day, but the reason why I ask is because it is important. There is a 5 percentage point difference between what people are thinking that your business is going to be doing this year, it’s less next year, but roughly that level, and what your previous target was.

And what I’m trying to understand is, is there anything in your portfolio which you think could be structurally impaired? Or is there anything you see on the price side that would make you think things across the industry are significantly different?

Frans van Houten - Koninklijke Philips NV - CEO

No, I appreciate, Ben, that you're trying to get to the bottom of it. And I think I tried to say that there is nothing structurally impaired. But we are behind on our original plan, therefore, it will take us a bit more time to get to our original target. And we have some headwinds, but headwinds come and go. For now, these headwinds, like China, are there.

I believe in this business, otherwise we would not become a HealthTech business. Obviously, the Healthcare franchise, next to the Consumer franchise, are the fundamental pillars of the future of Philips.

Ben Uglov - Morgan Stanley - Analyst

Understood. Thank you very much.
Andreas Willi  - JPMorgan - Analyst

I have two questions; one on the separation costs, and then a follow up on currency and Healthcare.

On separation, you're guiding us to EUR0.5 billion costs for this task, which seems very high compared to other companies that have done spin-offs, or breakups. Maybe you could give us some more indication of how that breaks down.

What is external fees; what is staff that you have hired; what is non-cash items, or write-downs, or more legacy issues, just to give us a better confidence that this is not an underlying buildup of corporate costs, or reallocation of corporate costs?

Ron Wirahadiraksa  - Koninklijke Philips NV - CFO

Andreas, you have to realize, and I know you do, that this is a very complex separation. This is not your plain vanilla carve outs. We are literally resetting the Company in more than 90 countries, financially; tax-wise; IT-wise; HR-wise; systems; number of applications to be separated out; government contacts and contracts. It is really a very arduous task.

As Frans said, we're well on track, so going into 2016. Does it mean that we're not on track? On the contrary, I would say.

The costs are, indeed -- and if you take a mid-point of what we are saying, EUR400 million to EUR600 million, its EUR500 million; that is 1.5% to 2% including restructuring.

So, and we said it earlier, we don't feel this is out of range. But you do have to realize that Philips is a company that has been deeply entwined and entangled in the absence also of an infrastructure that is more enterprise-wide architected, which is exactly what the Accelerate transformation program is doing, building that infrastructure. We are not at that point yet, and we're starting with the first implementations in this year.

So, the separation, very complex; a lot of history on the back. We're doing it dually and arduously.

We have -- to your earlier point, as you alluded to, internal, external cost, these are both internal and external costs.

We have dedicated people working on the separation in the Company,. We also have non-dedicated people working on the separation in the Company and the cost of those people are not attributed to this. Of course, the people who are working on this are quite significant.

You have to think about IT costs; that is the brunt of it, I would say. So, imagine, the separation of an IT infrastructure that is executed over multiple kernels, again, subject to the Accelerate Transformation, enterprise-wide architecture roadmap and improvement. But it is there. So, that is a very, very big one.

Then, you have the typical real estate, HR finance cost, and the project management ops cost.

And then, there is, of course, costs that we spent on buying services. For example, we are running a process, as Frans already explained in his opening remarks, that is not limited to an IPO. We are looking at what is the best strategic -- what are the best strategic options. So, that also takes some money.

It is important to note that these costs do not include the pension de-risk cost. We have not been explicit about the letter yet, because we're in the midst of engaging with stakeholders. It's very early to talk about it. We have said it's significant, but I can't quantify that right now.

I hope, with this, I've given you somewhat of an underpinning. In our book, there is nothing strange about these costs. And rest assured that we've done a very rigorous job in assigning capacities, and also deciding on what goes outside and what stays inside.
Andreas Willi - JPMorgan - Analyst

Thank you. And my follow-up question on currency, which, I guess, a large chunk of it, of the negative we have seen so far, seems to have been also in Healthcare. I still struggle a little bit to understand, given you have -- currency seems to be a problem when the euro is strong, and then it is a problem when the euro is weak in terms of your exposure here.

If we look at other companies that have had significant currency headwinds because they're sourcing a lot in China, or in US dollars in general, we have seen price as a partial offset, even at companies like Electrolux, who in the appliance business is not known for very strong pricing power.

Why haven't we seen more of a positive price impact as you tried to offset some of these currency headwinds in markets with weak exchange rates, like Russia, like Brazil?

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Yes, Andreas, it's a very good point. I hear what you say: when euro is weak it's not good, when it's strong it's not good. The backdrop to this is, of course, that the footprint has changed. As I earlier said, we are having activities now in discontinued operations, for example, that provide a very different footprint impact.

Then, of course, also, we have to think about the related currencies in developing markets, the growth geographies, that basically have -- this time a plus, last time last year there were somewhat of a setback.

And then, there is the impact of the Chinese yuan that, basically, we are short in. So that hampers the equation, also.

This is not something out of the run, I would say; we have quite granular data to follow this.

On your question on price increase, we did. So particularly in Consumer Lifestyle, where we have a number of franchises that allow us to increase pricing, we were able to offset. Therefore, as we already explained, we have seen quite a strong operational performance, despite the currency headwind.

In our book, and I hope I'm answering your question, there is nothing mysterious or strange about it.

So, it's a matter of currency movement; it's a matter of seasonality; and it's a matter of footprint. And then, of course, we have hedges that are unwinding that have also influenced the footprint.

Andreas Willi - JPMorgan - Analyst

Thank you very much.

Operator

Fredric Stahl, UBS.

Fredric Stahl - UBS - Analyst

Could I ask you, on the Lighting, the LED margin there, what's driving that? Is there anything of one-off nature in terms of mix, for example, in the quarter? It's such a big uplift relative to expectation, so if you could give us some more color on that, that would be helpful. Thank you.
Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Are you talking about the growth in LED, the growth uptick, or the margin uptick?

Fredric Stahl - UBS - Analyst

No, the margin, the margin uptick.

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Yes, so we’re getting, of course, better in volume, particularly on LED lamps. We’ve also seen, at the beginning, a lot of price erosion in the professional business, where now we can say that LED business is significantly more profitable than conventional business. And also, the conversion there has gone very, very fast.

We also were able to drive a quite good cost out in the bill of materials, which helped drive the margin improvement. Sometimes this goes, maybe, a little bit more clunky, if you will.

We run this in the DfX program. We run this, at least the DfX conventions with the organizations, where we teach people how to do this, how to sustain it. And I think that, compared to Q2 last year, that has given a good boost to the program. And I can say that the DfX program, because it wasn’t on top of, has also triggered much better normal bill of material savings.

So that explains the driving better LED margins, which we should also do, of course, as we grow and move forward in this business; I’m not only talking about LED lamps, but of course also the LED in the professional business, particularly.

Fredric Stahl - UBS - Analyst

Thank you. Could you give us an idea what the difference is in terms of profitability between the total LED segment, and the conventional lighting segment?

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Well, LED is profitable overall as a business. So, it was a mid single-digits. It will move up gradually as the conventional business, which is also still very profitable, but in the top line is coming down a bit, as we have seen.

Fredric Stahl - UBS - Analyst

Thank you very much.

Operator

Margaret Paxton, Nomura.

Margaret Paxton - Nomura - Analyst

I just have a longer term question about Healthcare, please.
I think your R&D spend in Healthcare last year was around 9%, and it had inched up a bit. Given the commentary around investing more in informatics, and the importance of analytics, and how you differentiate in general now in Healthcare, do you anticipate that that R&D spend, as a percentage of sales, will keep going up in the mid-term?

And related to this, there seems to be a lot of big IT companies, like IBM, doing healthcare analytics now. And I appreciate that the term analytics can be very broad. But can you explain maybe the difference between what Philips is doing compared to what those larger IT companies are doing, and where the overlap is, if any? Thanks.

Frans van Houten - Koninklijke Philips NV - CEO

R&D, in Healthcare, has certainly edged up a little bit. And as we go more in informatics, the nature of the business, including software, would argue that the R&D spend actually, due to mix effects, may take a stronger position, because, typically, development is the factory of software. So I don't see it really come down, as such.

On your question on IBM and other competitors, our business, obviously, is also going to take more of a role in so-called big data. But there are many markets segments also in the market of big data.

We are very much focused on the delivery of care to consumers, to patients, in the professional healthcare space in the hospital. So, colloquially, in the colloquial way, you could say we are there in the last 10 yards between the patient and the care provider. In that sense, we are not far away in the cloud; we are near the patient.

And the analytics business that we are in particularly interested in is in applying the data to deliver better care to patients in real time, either at home, or in the hospital. I give you an example.

We are the market leader in patient monitoring. We can measure up to 30 or 40 data sources in real time to measure on how a patient is doing. Vital signs, but also drug delivery, the respiratory care delivery.

And all of those informations are being analyzed and correlated. And it enables us to predict how the patient is doing. For example, we can predict sepsis or a cardiac infarct hours in advance for a patient that is under care of our monitoring equipment. That is a different big data, again, than doing analysis on insurance records of what is the most costly patient in your millions of patients in the database. That's a different kind of market.

So when you think about cloud computing big data, yes, Philips is going there. We are there. We monitor patients remotely, tailor house. We are in algorism analytics; it will become more important. But we are in different market segments than some of the names that you mentioned and, therefore, I would not immediately believe that, that is a concern to us.

Does that answer your question?

Margaret Paxton - Nomura - Analyst

Yes, thank you. Can I just clarify, on the R&D question, that you're saying that it won't go down? But are you saying it will go up or --?

Frans van Houten - Koninklijke Philips NV - CEO

Well, I said if the proportion of our business, the mix of our business shifts, for example, more HISS, more software business, that business comes with a higher proportion of R&D through the nature of its business, because software developers are, quote-unquote, the factory of software.

Maybe it's something that we need to reflect a little bit on, as I recognize your question, and provide some more commentary around Capital Markets Day. I think it may go beyond the scope of this call. As you indicated yourself, it's more a long-term question in nature. And I think then
the real answer is more around which business in Philips is going to grow fastest, and then how does that influence the mix of R&D ratios per business? Is that okay?

Margaret Paxton - Nomura - Analyst
Yes. Thank you very much.

Operator
Alfred Glaser, Oddo Securities.

Alfred Glaser - Oddo Securities - Analyst
First, I wanted to get back on your target, and the outlook for 2015. Previously, you said that you were targeting a 100 basis point improvement of the adjusted EBITA margin. Do you still target this, or is this now more quantitative target than previously?

My second question was on the free cash flow that was slightly negative in Q2. Could you give us some more detailed elements on the full-year outlook? What should be taken into account for free cash flow this year?

Frans van Houten - Koninklijke Philips NV - CEO
Thanks, Alfred. I think Mark also asked about the near-term guidance, and with regard to improving the adjusted EBITA in the year, and my response was that we face quite a lot of headwinds, and it will be quite a lot of work. And we are focused to get as close as possible to our target, but it is certainly not in the bag yet.

Then, maybe Ron can talk about the cash flow side of your question.

Ron Wirahadiraksa - Koninklijke Philips NV - CFO
Yes, so if you look at the free cash flow, and as mentioned in the speech, EUR30 million negative is basically influenced by the CRT settlement, mostly, of EUR73 million.

Also, if you look at the calendar. As you know, we switched to Gregorian calendar this year, so we're not going to have phenomena any more in the year of payments and receipts falling in or outside the quarter. But it does mean, in the compare with last year, there's some impact. I think there, a free cash flow at the first half with, having said this, actually, very healthy.

If you look for the full year, it's a little difficult to comment on that at this point because there are a lot of moving pieces. Also, under the influence of what I earlier said around pensions. We will give an update on that later on in the year when we have firmed up the de-risk plan, or are better able to quantify this for you.

The operations, otherwise, generate the cash flow they usually generate. So it will basically down to incidentals, where we're going to end the year with.

Alfred Glaser - Oddo Securities - Analyst
Okay. On cash flow, the underlying cash conversion rate should be comparable to what it was last year, is that correct?
Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Yes. Even slightly better, I would say, because we have made also improvements in our operational performance.

Alfred Glaser - Oddo Securities - Analyst

Okay. All right, that's clear. Thank you very much.

Operator

Michael Hagmann, HSBC.

Michael Hagmann - HSBC - Analyst

Two follow-up questions from my side, if I may. First one is on guidance. As you have been realizing, I guess, throughout the call, that some of us are still quite at a loss in respect to what we can expect for 2016.

Now, I do appreciate that there is a Capital Markets Day in the middle of September. But given that normally July and August are quite slow months anyway, and halfway through September you will not have much additional information about September, I was wondering if you couldn't try to give us some help on what we can really expect for 2015, and 2016.

If you can't provide that information, I was wondering if you could tell us what we can expect on the Capital Markets Day, in respect to the guidance. Will you give us a more narrow range for 2015, a narrow range for 2016? Or will it be more like a mid-term outlook towards 2018?

Then, the other follow-up question just on pricing, please. I was just wondering if you have been able to pass on rising raw material costs in LED replacement lamps in Europe towards your customers. Thank you.

Frans van Houten - Koninklijke Philips NV - CEO

Michael, let me try again a little bit then on 2015 and 2016. First, 2015, in January, we said we strive for 100 basis points improvement. In April, I flagged that that's going to be challenging, but we will try to do that. And today, I reiterate that we are lazer-focused on driving further operational improvement.

We are encouraged by second quarter. It's a step in the right direction. The year is only half way, so we still have six months to go. We will try to get as close as possible to the stated objective for 2015.

For 2016, we defined targets 1 1/2 years ago in September 2013, and we are halfway that period. We still have 1 1/2 years to go. In January, we flagged that we were 100 basis points behind on that target. Now, we are not in the business of updating targets all of the time, so we are very focused on again getting as close as possible to the given guidance.

We see good operational improvement. I think where we have a handicap is in the incidental line, as it affects reported EBITA, with incidentals on separation cost, restructuring cost. Some of that is now visible in 2016. We have now given you, for the first time, guidance on the separation and associated restructuring for 2016. So that will, obviously, affect reported EBITA.

But we remain undeterred in our ability to focus on operational results improvement, in other words, the adjusted EBITA line, because that is something that we really control quite -- at least control. And there we made good progress in the second quarter, despite the currency headwinds that we have tried to speak about.
So, that is where we stand.

Now, at Capital Markets Day, we are not going to issue new targets. We are still halfway in the period of the current targets, and what we would like to tell you at the CMD is where we are on our trajectory. We know that a lot of you want to know what does HealthTech and Lighting Solutions look like; how do the IG&S cost pieces fit the two separated companies? We will come with some insights on that.

We plan to indicate how we are going to look at, let's say, the future representation of results; and there, where we can give new color then we will do that. But obviously, there's only six weeks between now and September. And also, in September I will say that the end of 2016 is still 16 months away. And every day, the entire Philips team is focused on improving results. So, that's it.

And maybe then your third question on pricing, if I can get some help from Ron.

Ron Wirahadiraksa - Koninklijke Philips NV - CFO

Yes, LED replacement, the LED lamps business is still under quite some price erosion. As you know, the pick up to higher penetration needs to be driven ongoing. So where we can, rest assured that we pass it on.

Also, bear in mind, coming back to what I said earlier on the bill of material on the DfX program savings, we have been quite successful in doing that. So that's why we've been able to expand the profitability margin, go forward, and we intend to do that ongoing.

Michael Hagmann - HSBC - Analyst

Thank you very much for the elaborate answer.

Operator

Peter Reilly, Jefferies.

Peter Reilly - Jefferies - Analyst

I just wanted to come back to your comments on China, Russian, and Latin America, where you're concerned about the macroeconomic environment. Is that something you're seeing today in your order intake, or in terms of talking to your distributors? Or is that just a more general concern you've got, based on what we can all read in the newspapers?

Frans van Houten - Koninklijke Philips NV - CEO

Peter, it's a specific concern as it affects our business already today.

We see -- we had five fabulous years in China, of course, where we grew strong double-digit, and it has been gradually slowing down. Currently, in China we had negative order intake on Healthcare, also on lighting projects, given the weak construction market. So it is impacting the business. I think, going forward, we need to be much more modest on expectations with regard to China growth; that's just being realistic.

Russia is facing a deep economic crisis, and consumers keep their wallet closed. That affects us. I think the Healthcare business in Russia is probably already flattened out, because there we saw a big impact in 2014. And I don't see, currently, a further decline, but the consumer behavior is very much under pressure.

Then, in Latin America, I think we see a deteriorating Brazil, both on the macroeconomic side.
But it translates into weaker business performance across the board, in all three sectors.

**Peter Reilly - Jefferies - Analyst**

Thank you very much.

**Frans van Houten - Koninklijke Philips NV - CEO**

You’re welcome. All right, sorry that the time is up. I know that there were more people wanting to ask a question. Of course, our investor relations desk is always available for you.

Let me just round off by saying that I’m encouraged by the improvement in the second quarter. We have a lot to do for the coming quarters; and we are going at it with full force, and will make, step by step, further improvements on our operational results line. Thank you.

**Operator**

This concludes the Royal Philips second quarter 2015 results conference call on Monday, [July] (corrected by company after the call) 27, 2015. Thank you for participating. You may now disconnect.