Philips – Q4 and Full Year 2017

Tuesday, 30th January 2018

Introduction

Pim Preesman

Head of Investor Relations, Royal Philips NV

Thank you, and good morning ladies and gentlemen. Welcome to Philips Fourth Quarter Fiscal Year 2017 Results Conference Call. I am here with our CEO, Frans van Houten, and our CFO, Abhijit Bhattacharya. On today's call, Frans will take you through our strategic and financial highlights for the period. Abhijit will then provide more detail on the financial performance and market dynamics. After that we will take your questions.

Our press release and the related information slide deck were published at 7.00 am 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 end of today on our website.

Before I turn over to call to Frans, I would like to remind you that Philips shareholding in Philips Lighting is currently 29% of Philips Lighting issued share capital. As a result, Philips no longer has control over Philips Lighting and has ceased to consolidate Philips Lighting under IFRS. The remaining Philips Lighting stake is presented as an investment included in assets classified as held for sale in the financial statements of Royal Philips as from the end of November 2017. Finally, as mentioned in the press release, adjusted EBITA is defined as income from operation excluding amortisation of acquired intangible assets, impairment of goodwill and other intangible assets, restructuring charges acquisition-related cost and other significant items.

Comparable growth for sales and orders are adjusted for currency and portfolio changes. With that, I would like to hand over to Frans.

Overview

Frans van Houten

CEO, Royal Philips NV

Yeah, thanks Pim, and thank you all for joining us today. 2017 was a good year as we continue the transformation of Philips into a focused leader in health technology and we achieved our improvement targets in a challenging year. For this, I would like to thank our customers, employees and other stakeholders for their trust and hard work. I am pleased that we delivered full year 4% comparable sales growth and adjusted EBITA margin increase of 110 basis points and a strong €1.2 billion free cash flow.

Order intake

We also ended the year with a strong order book driven by a 6% comparable order intake growth for the whole year. As Philips gained momentum through the year, we were able to deliver operational improvements and increase profitability. We finished the fourth quarter on a firm note by delivering a comparable order intake growth of 7% and a comparable sales growth for 5%. We achieved a strong 140 basis point increase in adjusted EBITA margin to 16.7% for the quarter, and an increased free cash flow to €948 million

Milestones

During 2017, we executed all important milestones of our strategic roadmap and I would like to highlight some before going into more specifics for the quarter. On June 30th, we announced the completion of the sale of an 80% stake in the combined Lumileds and automotive business. With the completion of that transaction and the deconsolidation of Philips Lighting in the fourth quarter, we reached an important milestone in transforming Philips into a focused health technology company.

Innovations

Secondly, we introduced many breakthrough innovations which supported our strong order intake for the year. The sizeable number of new product introductions resulted in over 60% of our Diagnosis and Treatment portfolio being renewed. This will enable further market share growth and profitability improvements.

Our focus on innovation is also recognised in the industry. For the fifth consecutive time, Philips has been named a Top 100 Global Innovator by Clarivate Analytics. We are also among the Top 50 Global Innovators of the year according to the Boston Consulting Group worldwide survey published recently.

Spectranetics

In the third quarter, we strengthen the leadership position of our image-guided therapy business by expanding our portfolio of therapy devices with the acquisition of Spectranetics. Spectranetics has an impressive product portfolio of catheters for the treatment of coronary artery disease and peripheral vascular disease. The business reached an important milestone in the fourth quarter, as we launched the sales of Stellarex, the next generation drug-coated balloon to treat patients with peripheral arterial disease after receiving FDA approval. Spectranetics is highly complementary portfolio builds on Philips leadership position in image-guided therapy devices.

Productivity

Our self-help productivity programme continues to be an important margin contributor. For the three-year period 2017 to 2019, we have committed a cumulative total net saving €1.2 billion averaging productivity savings of approximately €400 million per year. For the first full year, Phillips productivity programmes delivered annual savings of €483 million well on track to deliver the targeted savings for the three-year programme.

Progress

With these moves, we are well positioned to capture the tremendous opportunities that we see in the health tech domain. I am also pleased that during last year MSCI acknowledged our transformation into a focus health technology leader by reclassifying Philips stock the health care sector from the industrials group, and that followed of course the reclassification by the FTSE Group's ICB and the change in sector classification for the stocks Europe 600 Index to health care.

Three Levers

As outlined at our Capital Markets Day last November in New York, our health stake value creation story each built on three key levers, on which we made further progress in the fourth quarter. The first lever by creating value in our core businesses by gaining market share through deeper and more comprehensive customer partnerships, innovative solutions and pursuing growth by increasing geographic coverage. The second lever by creating value in adjacencies through both organic investments, partnerships and selective M&A, and the third lever by improving margins through customer and operational excellence.

On the first lever, innovation and partnerships and increased geographic coverage were important drivers of the continued growth of our 6% in Personal Health business in the fourth quarter. Also in the Diagnosis and Treatment businesses, we gained further momentum with the double digit comparable order intake growth and 6% comparable sales growth.

Portfolio

We had very successful engagement at the Radiology Society of North America, the RSNA Trade show in November. We showcased our new portfolio of digital imaging systems, smart devices, advanced informatics and services. Our artificial intelligence driven solutions and connected technologies were very well received by our customers.

We launched our new digital MR Prodiva 1.5-tesla system which provides enhanced clinical performance and increased productivity. We also introduced the latest configuration of our a IQon spectral CT, which is optimised to support the needs of emergency and on quality care

Product success

Moreover, since the third quarter we have been shipping Vereos, the world's first and only fully digital PET/CT system, which is achieving market success due to its superb resolution, accuracy and efficiency. Recent results of an independent study demonstrated the clinical workflow and productivity benefits of Philips Azurion which was introduced to the market during the first quarter of 2017. The data showed that the clinicians' use of Azurion resulted in a significant reduction of the in-lab patient preparation time, the interventional procedure time and the post-procedure lap time. Azurion was very well received in the market and contributed to the high single digit order intake growth for image-guided therapy in 2017.

Product launch

We also launched Philips IntelliSpace Enterprise Edition for radiology. A full suite of interoperable healthcare informatics and AI applications and services in combination with a managed service and pay-per-use model. This suite includes advanced clinical informatics solutions for data workflow and visualisation.

Moreover, we launched our next generation patient monitoring solution in the United States. This enterprise-wide system consists of bedside transport, mobile and central station monitoring technology. It features the IntelliVue X3 which provides continuous monitoring for the most critical patients curing in hospital transport. The new offering includes a range of product support and expert services.

Expansion

In the third quarter of 2017, we expanded our market leading home ventilation offering was the launch of the wirelessly connected Trilogy Ventilator in North America linking it to the cloud-based platform Care Orchestrator which is powered by the Philips Healthsuite digital platform. This established a clinically validated solution COPD management which will help providers' lower care cost, reduce hospital admissions while improving patient experience.

Now with connected respiratory care added to our 2.6 billion nights of sleep experience, Philips is leading connected sleep and respiratory therapies in the home.

Growth

The award-winning Trilogy Ventilator as well as our compact sleep therapy system DreamStation GO launched in the second quarter of last year contributed to a double digit comparable growth in sleep and respiratory devices for the fourth quarter. Our sleep and diagnostics business also experienced mid-teens growth validating our intent to extend the sleep apnea market worldwide. And in-patient interface, we have exciting launches planned in the first of 2018 addressing the full mask, face mask segment, which is the largest segment of the market.

Agreement

During the quarter, we signed multi-year agreements including a ten-year agreement with the Children's Hospital & Medical Centre of Omaha in the United States to help, drive innovation in paediatric care. We also won a multi-modality tender at the University hospital of Schleswig-Holstein in Germany to provide medical equipment for the hospitals radiology and neuroradiology departments.

Oral health care business

Now moving to our oral health care business. In Europe, Philips partnered with Dutch health insurer ONVZ to provide an industry-first collaboration focused on oral care prevention. Their first offering is a supplementary health insurance in combination with Philips latest connected electronic toothbrush to protect against cavities, gum inflammation and oral disease. The insurance fully covers dental hygienist visits and dentist check-ups, and includes a new brush head every quarter as a subscription.

Growth in China

We continue to deliver strong growth in China driven by our innovative consumer health and professional health care portfolio, focused initiatives to step-up market share and customer partnerships. For example, Philips partnered with Oranger, a service provider specialised in chronic respiratory disease management and Health 100, the largest health examination organisation in China to provide integrated solutions for chronic respiratory disease that cover screening, referral treatment and recovery.

OneBlade

We are pleased with the continued success of OneBlade, the innovative new product that taps into the growing market trend of male facial hair styling. OneBlade effectively broadens the reach of our male grooming portfolio leveraging our capabilities as the world's leading electric male grooming brand. OneBlade generated annual sales of more than €100 million within 18 months of its launch and is currently available in over 20 countries.

Partnerships

On the second lever of creating value and adjacencies through organic investments in new business partnerships and selective M&A, we further complemented our portfolio as we partnered with the US-based Nuance to bring artificial intelligence into radiology reporting by leveraging functionalities from Philips Illumeo and Nuance PowerScribe 360. We also teamed up with leading telehealth provider American Well to jointly deliver virtual care solutions around the world by embedding American Well's mobile telehealth services into an array of Philip solution spanning Personal Pealth and wellness, population health management and clinical programmes.

The first deployment is on the Philips Avent uGrow parenting platform giving parents instant access to professional medical support and instant peace of mind. Beginning in the United States, Philips' uGrow parenting app will offer video consultations with health care professionals via American Well.

Acquisition

To strengthen our population health management business, we acquired VitalHealth whose highly complementary portfolio of advanced analytics, care coordination and patient engagement and outcome management solutions will support Philips commitment to deliver integrated care solutions for care outside of the hospital. Since the acquisition of Wellcentive in 2016, we have been building and expanding our population health management business.

Strategy

Our strategy comprises of a three-pronged approach. First, we help our customers to understand the needs of their population from a clinical i.e. patient stratification and financial i.e. reimbursement point of view. And then we help the patients to navigate in the care system outside of their hospital with the general practitioners, their nurses and their families. And as a third step, we activate and engage patients with our telehealth programmes.

Acquisition

We reinforced our radiology solutions offering with the acquisition of Analytical Informatics. Their suite of workflow improvement applications complements Philips performance bridge practice to enable imaging departments to make data driven improvement decisions. For example, Philips and Banner Health extended their partnership to include the adoption of Philips performance bridge practice across Banner's 28 radiology departments.

Highlights

I would like to highlight that the productivity improvements for Spectranetics are ahead of plan. We successfully launched the Stellarex drug-coated balloon in the United States and we are already seeing tangible cross selling results from the highly complementary Spectranetics and Volcano product portfolios.

Volcano

The integration of Volcano has been completed as planned. The business delivered high-teens comparable sales growth in 2017 driven by the strong performance of our diagnostic catheters and we further improved gross margins by 10 percentage points in the last two years. The sales growth and gross margin improvement coupled with productivity programmes form a strong base for further structural profit expansion.

Third lever

Thirdly, on the third lever, we created value by improving margins through customer and operational excellence. As mentioned earlier, our self-help initiatives to drive €1.2 billion in savings for the period 2017 to 2019 are well on track as we delivered €483 million savings for the year. Each of the main three programmes i.e. procurement savings, manufacturing productivity and overhead cost reduction delivered on their milestones.

Manufacturing productivity

On manufacturing productivity, we are focused on the regional consolidation of our manufacturing footprint and are targeting to move from 50 to approximately 30 production locations by 2019. I can confirm that we have already reduced nine manufacturing locations by the end of 2017.

FDA inspection

As stated in an earlier press release, following an FDA inspection of our Cleveland facility in the third quarter of 2017, we submitted our response to the inspectional observations for review by the FDA. Last December, we had a constructive meeting with the FDA, and we will continue to drive our quality management system improvement programme providing monthly status reports to the FDA, highlighting the progress in addressing the observations.

Consent decree

Separately, on 31st October, the US Federal court formally approved the consent decree that has been agreed to by Philips and the US government. We have briefed you on this in detail in the press release and the following Analyst call on 11th October. We are proceeding in line with the terms of the consent decree which include inspections by independent auditors. As planned, we have resumed shipments of our HS1 defibrillators globally as well as consumables, accessories and service parts for the whole range of defibrillators.

Additionally, we have resumed shipments of our FRx and FR3 defibrillators to Japan which is our second largest market after the United States for these products, and we plan to ship to other markets outside the US in the remainder of the first quarter of 2018.

Summary

Let me sum up. The progress on the three aforementioned levers have positioned us well to capture tremendous opportunities that we see in the health tech domain. And our performance in 2017 demonstrates that our strategic focus is paying off. At the World Economic Forum in Davos last week, Philips continued to play a leading role in the transition to the Circular economy. For example, as part of our Healthy People Sustainable Planet strategy, we have pledged that Philips will take back all large medical equipment that our customers are using and repurposed traded in materials in a responsible way.

Overall, we aim to deliver 15% of total revenues from Circular solutions by 2020, for example through innovative service models, smart upgrade path, and remanufacturing programmes. The sessions held at the WEF with the Health & Healthcare governors' community saw a strong engagement on value-based health care, effective preventative care and primary care capacity building for emerging markets.

Insight

As an insight, it is evident that more needs to be done at an industry level to better define how we benchmark and measure outcomes for value-based care. In collaboration with others, measurement and healthcare economics is an area that Philips will further develop in 2018.

Announcement

I would also like to take a moment to come back to the announcement regarding our new CEO for Philips North America. Vitor Rocha, has succeeded Brent Shafer in that role. We activated our strong internal talent pipeline to promote Vitor whose previous experience as the leader of the Latin America market for Philips Healthcare and since 2014, leader of the Global Ultrasound business will ensure a seamless leadership transition. I want to thank Brent for his valuable contribution to Philips and I wish him all the best in his future endeavours.

Expectation

We expect our markets to grow 3% to 5% on a comparable basis in 2018. Combined with our strong order book we are confident that we will reach our mid-term targets of 4% to 6% comparable sales growth, and an average annual 100 basis points profit improvement in the adjusted EBITA margin this year. Giving the phasing of our order book, we expect improvements to be at the back end of the year.

And with that I will turn the call to Abhijit who will provide more detail on financial performance and market dynamics.

Financial Overview

Abhijit Bhattacharya

CFO, Royal Philips NV

Thank you Frans, and good morning to all of you on the call and webcast.

Sales growth

Let me start by providing some colour on the fourth quarter comparable sales growth of 5%. The growth for our three business segments that is excluding the license income was 5.4% for the quarter and 4.3% for the year. The Personal Health business and Diagnosis and Treatment businesses bought delivered 6% comparable sales growth. In the Personal Health business, this was driven by a high single digit growth in both health and wellness, and sleep and respiratory care. In the Diagnosis and Treatment business, this was driven by high single digit growth in ultrasound and mid-single digit growth in image-guided therapy and diagnostic imaging.

Our Connected Care & Health Informatics businesses showed a 2% comparable sales growth after a strong 8% comparable sales growth in the third quarter. We recorded 7% comparable sales increase in the growth geographies, which was largely driven by double digit growth in China, Central Eastern Europe, Middle East and Turkey and India. In the growth geographies, the Personal Health businesses recorded their third successive quarter of double digit comparable sales growth.

Sales in North America grew with 5% and in Western Europe by 4%, while other mature markets posted a 3% comparable sales growth mainly due to South Korea. In health tech, other net sales decreased by €34 million reflecting lower royalty income as we did not reach an agreement with a particular licensee.

Order intake

As Frans mentioned, comparable order intake overall grew by 7%. The Diagnosis and Treatment business showed a double-digit growth where the North America and China markets were particularly strong, with mid-teens comparable order intake growth. The

Connected Care & Health Informatics business declined low single digit as certain large orders in health informatics were postponed to 2018 as well as order intake declined for our ECR business.

For the full year 2017, order growth in Connected Care & Health Informatics businesses was low single digit, high single digit order intake growth for Diagnosis and Treatment businesses driven by ultrasound. The strategic investments in the portfolio and in the go-to-market that we embarked on for ultrasound in 2016 was successful, as comparable sales growth improved to mid-single digits and comparable order intake growth to double digits.

This strengthened our leading position in the largest segment of the imaging market. In growth geographies, order intake on a comparable basis grew double digit compared to Q4, 2016 mainly driven by ASEAN, Pacific and Middle East and Turkey.

Growth

As in the previous quarter, we continued our strong growth momentum in China driven by our innovative consumer health and professional health care portfolio and focused initiatives to step-up market share and customer partnerships. Comparable order intake in North America and Western Europe posted a 2% growth for the quarter. For the full year 2017, our comparable order intake grew double digit in China driven by Diagnosis and Treatment businesses that showed mid-teens comparable order growth.

EBITA development

Let me now turn to the EBITA development for the group in the fourth quarter. The adjusted margin of 16.7% in the quarter was 140 basis points higher than the year before. This margin improvement was driven by strong margin increase of 190 basis points in Connected Care and Health Informatics, partly driven by procurement savings and other cost productivity.

In personal health, the margin improved by 70 basis points and in Diagnosis and Treatment by 90 basis points. In both segment, this was mainly attributable to operational leverage from growth, procurement savings and cost productivity.

Performance

Our strong performance in the fourth quarter is driven by higher volumes, improved operational performance and delivering on our cost productivity targets, most specifically net overhead cost reduction amounted to €27 million in non-manufacturing cost. The productivity programme contributed €26 million to the gross margin and procurement savings in part driven by our design for Excellence programme delivered €81 million of bill of material savings year-on-year.

For the full year, productivity savings amounted to €483 million. And as Frans mentioned, we are well on track to achieve our 2017 to 2019 three-year target of €1.2 billion in net productivity savings.

HealthTech Other

In HealthTech Other, the adjusted EBITA amounted to a loss of €19 million. The improvement of €10 million compared to the fourth quarter of 2016 was driven by lower central cost partly offset by lower royalty income.

Adjusted EBITDA

Overall, adjusted EBITDA in the fourth quarter improved by 150 basis points to 20.2% of sales and for the full year adjusted EBITDA increased by 90 basis points to 15.9%.

Income tax

In the fourth quarter, the income tax expense was €237 million mainly due to a one-time non-cash tax charge of €72 million recorded income from continuing operations due to a value adjustments of Philips US deferred tax assets as a result of the US Tax Cuts and Job Act which was enacted in December 2017. The total impact in the tax account of the Philips group was a significant one-off non-cash tax charge of €200 million of which the aforementioned €72 million was reported in income from continuing operations, €99 million reported in net income from discontinued operations, and €29 million reported in equity.

Our full year 2017 ETR came in at 25% as per our guidance during the Q3analyst call. We were able to compensate the one-time non-cash tax charge of €72 million with a more favourable mix of profits and tax benefits from the recognition of deferred tax assets in Q4, which were previously unrecognised. Near term, the US Tax Cuts and Job Act will have a neutral effect on the Group's effective tax rate due to various offsetting factors.

Overall, net financial expenses in the fourth quarter decreased by €58 million year-on-year mainly due to lower interest expenses on net debt as a result of the bond redemptions and dividend income related to the retained interest in the combined businesses of lumileds and automotive.

ROIC

Return on invested capital, which is calculated on a five quarter MAT basis, was 11.9%, which is 4.2% above ROIC. ROIC decreased by 1.3% compared to the previous quarter, mainly due to the impact of acquisitions and the one-time non-cash tax charge of €72 million related to the valuation adjustment of our US deferred tax assets.

Working capital

Our drive to increase working capital efficiencies continued to yield results as inventories as a percentage of sales continued to decrease to 13.2%, a year-on-year improvement of 120 basis points. Also overall, working capital improved by 90 basis points to 9% of sales.

Free cash flow

Free cash flow was €948 million in the fourth quarter, an improvement of €397 million compared to the year before. The full year free cash flow was €1.2 billion, within our target range of €1 billion to €1.5 billion.

Dividend policy

As we discussed during our Capital Markets Day, our dividend policy is aimed at dividend stability. As such, a proposal will be submitted to the Annual General Meeting of Shareholders to be held on 3rd May 2018, to declare a distribution of €0.80 per common share in cash or shares at the option of the shareholder. Further details can be found in our fourth quarter press release.

Buyback

During the fourth quarter, we continued with the €1.5 billion share buyback programme announced on 28th June 2017 to be completed within two years. During 2017, we executed part of the programme through a series of individual forward transactions, unevenly distributed over the two-year period, as well as via open market transactions. Details about the transactions can be found on the Philips Investor Relations website.

Healthcare update

Let me now provide you with an update on the US healthcare markets, and our outlook for Western Europe and China.

US

The fourth quarter saw little resolution of the uncertainty in the US healthcare markets. Congress failed to pass the ACA health insurance stabilisation legislation, and while they did pass the tax cuts and JOBS Act, we expect that to have a mixed effect on the US healthcare market. The lower corporate taxes from the act will free up funds for capital equipment purchase, but at the same time it included the repeal of the individual mandate, which is estimated to lead to 12 million more uninsured Americans with corresponding uncompensated care cost for customers. Last week, the medical device excise tax was suspended for another two years, and we saw moderate improvement in government spending during the quarter.

Given these uncertainties, we continue to expect US healthcare market growth to in the low single digits while we closely monitor further developments.

Western Europe and China

In Western Europe we expect modest low single-digit healthcare market growth and in China we expect mid to high single-digit growth for 2018.

Additional 2018 guidance

Let me now provide some additional 2018 guidance for certain areas of our businesses.

HealthTech, Other and Legacy

For HealthTech, Other and Legacy, we expect a net cost of approximately €50 million in the first quarter and approximately €165 million for the full year 2018, both at the EBITA level. Included in these numbers are €15 million of restructuring and other incidental items for the first quarter, and approximately €50 million for the full year. Royalties are expected to be at a similar level compared to 2017. On an adjusted EBITA level, we expect full-year costs at €115 million, which is an improvement of €42 million, mainly due to lower cost. The year-on-year EBITA improvement will be €52 million.

Restructuring charges

The restructuring charges for the period 2017 to 2019 are still expected to be around 80bps on an average, with a decrease thereafter. Overall restructuring for 2018 is expected to be approximately 90bps, a 30bps decrease versus 2017.

Acquisition-related costs

Acquisition-related costs are expected to be approximately 40bps.

As a consequence of the consent decree mainly related to our defibrillator business, we continue to anticipate an EBITA impact of approximately €60 million in 2018, of which €20 million in the first quarter of 2018.

Tax rate

We evaluated a geographic mix, and combined with further optimisation, we lower our midterm effective tax rate guidance from around 30% to a 26-28% range, excluding incidentals.

Concluding remarks

In summary, we continue to gain momentum in the fourth quarter with 7% comparable order intake growth, 5% comparable sales growth, 140bps earnings improvement and a strong cash flow performance. We delivered on our improvement targets for the year with a 4% comparable sales growth and adjusted EBITA margin increase of 110bps and a strong €1.2 billion free cash flow.

2018 outlook

For 2018 we are confident that we will deliver on our midterm targets of 4-6% comparable sales growth and on average an annual 100bps improvement in adjusted EBITA and a free cash flow between €1 billion to €1.5 billion this year.

Given the phasing of our order book, as Frans mentioned, we expected improvements to be at the back end of the year. With that, we'll now open the lines for your questions. Thank you.

Q&A

Operator: Thank you, sir. If any participant would like to ask a question, please press the * followed by the 1 on your telephone. If you wish to cancel this request, please press the * followed by the 2. Would you please limit yourself to one question with a maximum of one follow-up? This will give more people the opportunity to ask questions. If you are using speaker equipment today, please lift the handset before making your selections. There will be a short pause while participants register for a question.

We will now take our first question from the Ms Yi-Dan Wang from Deutsche Bank. Please go ahead.

Yi-Dan Wang (Deutsche Bank): Thank you very much. Yeah, so just a quick question on the order intake in North America and why that has slowed down despite an easier comparison.

And if I could tag on a financial one, in terms of the FX exposures, it would be helpful if you give us some sense of what your exposure in revenues is and also cost to key currencies. That continues to be a source of negative surprises, and I think it would be good to tighten up consensus a bit on that. Thank you.

Frans van Houten: Yeah, hi. This is Frans. So overall order intake growth in North America was around 3% for the year. We spoke about some larger orders in Connected Care and Health Informatics not coming through in the fourth quarter, but now we expect these in the quarter of 2018, as decision making in US hospitals also given that, say, uncertainty is – gets extra scrutiny.

So overall, we feel that the market will continue to support our growth targets. I'm particularly pleased with the strong performance in Diagnostic and Treatment where we saw double-digit order growth for the full year 2017 in North America. That basically underlines the proof that we are recovering market share, our innovations in Diagnostic Imaging, Ultrasound and Image-Guided Therapy are very well received. I don't think that we have seen such strong order growth in D&T in North America for a long time, and we are really leaving behind us, let's say, the – the consequences of, let's say, Cleveland some years ago and we are in a good mood.

I've also met several US healthcare providers that we now have many follow-up actions with as they are interested to having long-term strategic partnerships to drive patient outcomes and productivity.

For the ForEx I will look to Abhijit on my right-hand side to answer the question.

Abhijit Bhattacharya: Yeah, hi. I think for ForEx, as you've seen this year, we have not really called out any major impacts. We don't expect a big impact next year. I think overall for the US dollar we are neutral, and then for emerging currencies of course we have hedging strategies in place, but also pricing strategies with which we hope to cover.

I think where it gets a bit tricky is when you compare, let's say, market estimates in absolute euro values to our actual performance, and then you see some people talking about missing or coming in lower, but that's – so I think it's always good to look at comparable sales growth and EBITA margin. And when you look at the margins and the comparable sales growth, then the FX exposure is taken out. Now, if there are sudden switches, of course that could lead to some impact, but overall for the year we think it will be negligible.

Yi-Dan Wang: Okay. If I could follow up quickly on the FX and the North America order book, on the FX would it be possible for you to provide a sensitivity table by major currency? We tend to get that for other med tech companies in the sector, so it would be really helpful if you can do that.

And then on the order book, so given the double-digit growth in order book in North America for D&T, should we expect your growth – so the absolute growth or comparable growth you report in that part of the business starting to accelerate meaningfully as we go through 2018? Or is the order book very sort of longer term? So, you know, we won't be able to see much of it in 2018 but it's more of a 2019, 2020 trend?

Frans van Houten: Well, we will see the benefit of that order growth in the course of the year. In the speech I said it will be back-end loaded, because typically for larger capital equipment and certainly for the operating rooms for image-guided therapy, that takes quite a lot of planning, also, on the customer side. So I expect those orders to have an average throughput time to revenue of around nine months.

In any case, we – just for your awareness as a new analyst – we only record orders that can be turned into revenue on average in 19 months. So we don't book longer-term orders as such. Maybe that's something that we should clarify for all the new people that follow the Philips stock.

Abhijit Bhattacharya: Yeah, regarding the FX sensitivity table, that's of course tricky because the exposure changes quarter to quarter, depending on our supply pattern as well as the sales pattern, but maybe we can take that offline to see if there's slightly higher-level guidance that we could provide. But the sensitivity table is a moving table, so giving that out would not be wise at this time.

Frans van Houten: But may be good to take the opportunity, Abhijit, to talk a little bit about that. Let's say, we use currency comparable metrics to report on growth and all improvement targets. I think this morning was some confusion about, you know, did we miss or did we beat targets. With the dollar lower, obviously nominal growth in euros is lower, but that's why we measure on a currency comparable basis, and we also do not include the acquisitions within a 12-month frame. So the 5% growth in the fourth quarter was real growth, and we actually are pretty pleased with that, because it shows an increasing momentum and we hope that also all the new analysts that maybe are more used to companies that report in US dollars understand, let's say, how we try to give transparency on a ForEx-neutral basis, on real underlying activity growth.

Yi-Dan Wang: Thank you.

Frans van Houten: All right. Next question.

Operator: The next question from Mr Patrick Wood from Citi. Please state your question, sir.

Patrick Wood (Citi): Perfect. Thank you very much for taking my two questions. The first would be on the tax situation. Maybe if you could give us some clues on what some of the offsets are. I know it's complex legislation, but the – the lack of effect for you guys relative to your exposure to the US is, I should say, somewhat in contrast to some of the other companies you cover. So I'm just curious as to what some of these offsets are that are making you confident that you're not get that tax again. So that would be the first question, please.

The second question would be really on the Diagnosis and Imaging side. It's been a while since we've seen the mid-single-digit growth and equally, you know, as you pointed out, the D&T orders are very, very strong. Is that across all modalities, particularly in the D&T order book? I know you called out Ultrasound in general, but I'm just curious, are you seeing that strength across the board? Because it's a very large number. And within that, is there any one-off large order that would be boosting that, or is it just taking share back, really? Thank you.

Frans van Houten: All right, Patrick. Let me take the second question first and then the refer to Abhijit. The order growth is across all modalities. We see strong traction in ultrasound, in diagnostic imaging, as well as in – with the Azurion platform. We also see it across customer and across the globe. Gaining traction, therefore, is expected to continue.

Over to you, Abhijit.

Abhijit Bhattacharya: Yeah, Patrick, as you said, the tax thing is complex so I'm not going to give you a lecture on it now. But from a high level there are a couple of things. In the US we had, of course, profits there, but we were able to offset our interest on intercompany loans as a deductible, which therefore got our effective tax rate to similar levels that we will have it post the new legislation. You are also aware of the BEATtax that has been imposed, so therefore in the short term as our profits are still low, that has a negative impact. As it grows – as our performance in the US increases over time, we will start seeing some benefits, but in the short term not much. And as I mentioned, unrelated to this, we have brought down our overall tax guidance to the 26-28% range.

Patrick Wood: Thank you very much, guys, for the details. I really appreciate it. Thank you.

Operator: The next question comes from Veronika Dubajova from Goldman Sachs. Please state your question, madam.

Veronika Dubajova (Goldman Sachs): Good morning, gentlemen, and thank you for taking my questions. I'd like to start off with Cleveland. I noticed in the press release you said you had a constructive meeting with the FDA. Can you maybe give us a little bit more detail on what you define as constructive meeting, and to the extent that we need to worry about further enforcement action to the FDA can you put our mind at rest on that?

And then I have a quick follow-up on the tax, but maybe I'll ask that after Cleveland.

Frans van Houten: Yes, hi Veronika. I think we can put your mind at rest. I know it occupies many minds. So if I reframe it, we have the inspection then, you know, the findings were disclosed – also thanks to your efforts to get it on the table. I always said then we need to have a conversation with the FDA. That took place in December. We actually saw that we were commended for progress in many areas while we also still have room for further improvement, and we concluded the meeting to – with the agreement to keep each other informed about further progress and we can expect, in due course, another inspection. But that, I would say, is pretty much business as usual. So as long as we keep improving then I think we are in good standing with regards to our Diagnostic Imaging facility in Cleveland.

Veronika Dubajova: So it's fair to say you wouldn't expect any further enforcement action at this stage?

Frans van Houten: That's correct.

Veronika Dubajova: Okay, thank you. And can I quickly ask Abhijit on the tax rate? I appreciate – thank you for the medium-term guidance. That's very helpful. But if I look at your business, I can actually – with the exception of 2015 where there were some one-offs, I cannot find a time when you were paying a 30% - frankly, even a 26% tax rate, right? This past year you paid 25%. So as I look at my 2018 forecast, what should be the tax rate that we're using? Is it 26%, or is it 25%? Or what's the appropriate number, I guess, for the very short term as we look at our 2018 and 2019 forecasts?

Abhijit Bhattacharya: Veronika, if you look at the past years, it's almost impossible to give you a clean rate, because we get – of course we gain sometimes deferred tax assets, there are uncertain tax positions which, over a period of time, when there is no further follow up from tax authorities, those provisions get released. And you can't bank on that for the – for the future. I mean, those things come when they come. So therefore, we give a range of 26-28%, and your guess at this stage is probably as good as ours. So we would be in that range. If we still have uncertain tax position releases we could come a bit lower, but it's almost impossible to guide to that. We only know that during the year as the various hearings proceed.

Veronika Dubajova: Okay. Okay, thank you both very much.

Operator: We will now take our next question from Ian Douglas-Pennant from UBS. Please state your question.

Ian Douglas-Pennant (UBS): Hi, yes, thank you very much. So I am sorry to labour the point, but just a quick question on tax. Can I just confirm your 2018 tax guidance is also 26-28% as well as the medium term?

Abhijit Bhattacharya: Yes.

Ian Douglas-Pennant: And the more – sorry, was that just a yes?

Frans van Houten: That's correct. That was a yes.

Ian Douglas-Pennant: Perfect. So and then on guidance. You're saying this year is going to be H2 weighted, and 2017 was also H2 weighted in terms of how the growth came through. So this time seems like the comps in the second half would be quite tough. What gives you that confidence that that large amount of orders will come through in the second half? And also given you've had relatively strong order growth for most of 2017, why should we not see bonus of sales coming through in the first half of 2018?

And my last question on Cleveland, obviously you gave us some good news there. Could you just give us some commentary on your efforts for improving quality control processes across the Philips Group rather than just focused in on the two facilities? They get a lot of attention at the moment. Thank you.

Frans van Houten: Yeah. Hi, Ian. Yes, so the tax is already confirmed. The guidance for the second half is actually based also on analysing our order book and the order book composition. As it is, let's say, strongly related to that D&T portfolio, which is more capital equipment, then we see that the throughput time to realise that in or turn that into revenue after sign off by the customers that in nine months throughput time is pretty normal. So that means that all that – all those good orders will turn into revenue in the second half of the year, unfortunately not in Q1 or in Q2. Of course, we also have book and bill business that will still help the first half, but despite the tougher comparison, we maintain similar pattern of backend loaded.

Then on quality and controls, this has been a focal point ever since, I'd say, the wakeup call in 2014 where we were – where I was confronted with Cleveland and we intervened into the healthcare sector. We replaced management. We stepped up global leadership in quality and regulatory compliance. We started to improve our IT systems to track and measure quality controls. You need to imagine that quality compliance involves hundreds of thousands of records, and previously we discussed that often our issues with the FDA were related to the documentary evidence on quality controls. And since that, there is this huge volume in the handling of supplies and controls, supplier controls and field returns or field interventions, then automation and standardisation of processes help tremendously.

So a combination of different people, much more rigour and improved quality culture and stronger procedures and IT support help us get a handle on this. We have a couple of hundred inspections per year across the globe, not only from the FDA, but also from German [inaudible] and China, SFDA and so on and so on. And the trend line on all these inspections have been very good. In fact, we did not get new warning letters in that period. We also measure major versus minor observations, and we see a very good trend there. So overall, I feel confident that the various locations across the world we have made very good progress.

And in fact, we also heard that from the FDA, in our dialogues with them, that we are making progress. Unfortunately, you still have, let's say, the legacy that chases you, legacy as for example in relation to the consent decree, which dates back from the period of 2013-2015. Now we are now demonstrating with the external inspections as part of the consent decree that our quality management system is in much better shape. And when we reported in the call earlier that we are tracking according to plan, that also means that I feel confident that we are, let's say, maintaining our schedule to also resume the US production in the third quarter, as previously guided for.

Abhijit Bhattacharya: Maybe, Ian, just to add one more point regarding the seasonality of sales, I think it's important to note that earlier we had a hump in Q1 because of Chinese New Year for our consumer businesses. We see that more and more getting evenly spread through the year because there are special promotions that happen online like the 11/11 Singles' Day in China in November. That's where a lot of the buying takes place because there are heavy online deals which are available, certain big platforms like JD.com etc. have stuff that happens during the middle of the year. So that particular sensitivity to high Chinese New Year sales also we expect next year to be more neutralised.

Frans van Houten: This year.

Abhijit Bhattacharya: This year, sorry 2018.

Ian Douglas-Pennant: Sure. Understand. Sorry, can I just ask one-word follow-up. If naught is where you were the day before the Cleveland thing in 2014, and 100 is where you want to be, where are we today?

Frans van Houten: Naught being zero, right? I mean, this is your –

Ian Douglas-Pennant: Yes, sorry.

Frans van Houten: If you want to give me a self-assessment on where we are, this is difficult because I am – as a Dutch person, I don't usually give high grades. So now I'm in a bind. Shall I give myself a high-grade? I don't think I will do that, because there is always room for improvement. The first thing I need to tell you however is that please do not equate the business group diagnostic imaging solely with Cleveland. We have been de-risking diagnostic imaging tremendously. I think Veronika observed that in her notes somewhere back in the fall that in fact what remains in Cleveland is not very big.

We are very strong now in Haifa in Israel, in Best in the Netherlands and in Suzhou in China. Those are the three main locations for the future. And the quality management system in those locations is definitely very, very strong. So 7, 8 score given my conservatism as a Dutchman.

As we talked about the constructive dialogue, there is still further room for improvement in Cleveland, but it is no longer that high risk factor that was on everybody's mind in the past. That is why we called it constructive and that is also why I said we are back into a normal mode, where maybe we will get an annual inspection but that's it. I hope that's helpful.

Ian Douglas-Pennant: Very helpful. Thank you. I'll leave it there.

Operator: We will take our next question from Mr Scott Bardo from Berenberg. Please state your question sir.

Scott Bardo (Berenberg): Yes, good morning, and thanks very much for taking my question. So as we look at fiscal 2017, I think you grew, for the full-year, 3.9%. So just a shade below the lower end of your quarter4% to 6% guidance, albeit not much. So I just wondered if you could give a little bit more details as to why revenues weren't more suddenly in the bandwidth this year? What was the principal drivers? Also talk about 2018, what will be the major segments, if you like, driving growth more and more certainly in the bandwidth?

Also, just with respect to that de-risking strategy that you referred to which is ongoing, is it still the plan to transfer production and get approval of the Ingenuity line of CT scan and perhaps you can give some sense of when that would likely happen?

Last question please, just related to the North American relocation of your headquarters to Cambridge. It seems like quite a major relocation exercise. Just wondered if you could give us a little bit of background as to why you do that and what the advantages are? Thank you.

Frans van Houten: Great. Actually, I'm happy with that first question because the core business in Philips, so i.e. the sum of the three segments, grew 4.3% in 2017 offset by a decline in Philips [HealthTech] Other, which is basically part of the license income, some of the remains of the consumer electronics license income that we still carry with us at the group level. So 4.3% is what I think everybody needs to keep in mind as the foundational growth of our current health stack portfolio. Of course, we have every intention to continue that momentum. If you then see that order growth was north of that that also I think gives some evidence and confidence on that statement.

So full-year 2018, I think we have momentum as a company. Customers and consumers like our product ranges. We have introduced a slate of new innovations. The D&T portfolio was 60% renewed, the diagnostic imaging within that even 70%. We also believe that the CCHI slowness at the backend of the year last year is more a blip than a trend. We saw some orders being pushed out. But if you also dissect the CCHI business, then actually we gained market share in patient monitoring. We saw of course a decline in therapeutic care in relation to the defibrillator business but that was known. We all have talked about the defibrillator business that that would cause a decline for, let's say, nine to 12 months period. But if you take that out of the CCHI portfolio, then actually performance is much better.

On the question of the remaining products in Cleveland, so you're well informed, we have already transferred almost all products, except for that last one. That is what we are working on. Today is not the moment to give further details about that, but I would say stay tuned.

Then on Cambridge, yes, I must say in the press it became a headquarter message, but in fact it is primarily an R&D relocation. It is also our notional headquarters, but the management of Philips North America actually sits all over the country with locations as Seattle, Pittsburgh, San Diego and of course then Boston. The main activities in Cambridge will be R&D related. We are – we want to establish ourselves stronger there given the talent pool that we see, for example, MIT.

Two years ago, we moved up our research facility from the New York States into Cambridge. That's about 300 people or so. That has worked out very well. We see the talent attraction, the collaboration with MIT working very well, hospitals and so on.

So we are going to move most of our R&D personnel from – and over to Cambridge by the second quarter or the first quarter of 2020. This will be a facility that is under construction currently that we will, for the large part, lease. We take most of the building that's what I mean. We are very excited about being in that ecosystem in Cambridge.

Scott Bardo: Very good. Just one quick clarification please. Also does that encapsulate any R&D personnel and training personnel at Cleveland as well? Is that your expectation?

Frans van Houten: That is not part of the transfer and the announcement, no.

Scott Bardo: Great. Thank you very much for taking my questions.

Frans van Houten: You're welcome.

Operator: The next question comes from Mr David Adlington from JP Morgan. Please state your question sir.

David Adlington (JP Morgan): Hi guys. A couple of clarifications and just a follow-up. So in your remarks you mentioned on health tech, in other words, I think came in a bit below most people's expectations but you mentioned an issue around a licensee. Was that a licensee who did not renew, and if not, why not? And secondly, just in terms of the defibrillator headwind, is that include or excluded from the 100 basis points in margin expansion this year?

Frans van Houten: You want to go? Okay, go.

Abhijit Bhattacharya: I think on the license one, we have negotiations with many, many potential licensees, and sometimes if they end on-time and sometimes it takes longer. Sometimes we have to even litigate to get our license revenue. In this is one case, we haven't yet reached an agreement, and hopefully we'll get to an agreement in 2018, or if not, probably could take longer if it goes into litigation. So I would not like –

Frans van Houten: But maybe Jason doesn't know the background that most of our license – or let's say a big part of our license income relates to patents on consumer electronics portfolios, and some of those patents are running out, and that's why over the last few years we had a gradually declining license income. We are currently more seeing a flattening of that outlook, so we do not expect further deteriorations in the license income in the coming years. So we have most of the decline behind us. And then, as Abhijit says, it is sometimes a lumpy business because you need to negotiate, so it is not always predictable in which quarter you will get an upside or not. Then the second question, Abhijit.

Abhijit Bhattacharya: Yeah, on the defibs, yes that is part of the normal business, all the costs sit there. The only cost that we had guided to was the €20 million for this year and the €60 million next year.

Frans van Houten: Q1 20…

Abhijit Bhattacharya: Sorry, for 2018, we guided to €60 million for the full-year, of which €20 million in the first quarter that is adjusted out, so that is related to cost specific to the consent decree but for the rest, the normal business is all part of the improvement.

David Adlington: Understood. Thank you.

Operator: The next question comes from Mr Max Yates from Credit Suisse. Please state your question sir.

Max Yates (Credit Suisse): Hi, thank you. Just two questions. I just wanted to go back to a comment you made on the last call about, I think, you were saying the acquisitions would have a 20 to 30 basis point impact on margins. I presume because of where the acquisitions have gone into D&T, most of that was in the Diagnosis and Treatment division. So I just wanted to sort of understand a little bit, is that the case and did that impact D&T margins this? And if that is the case, then the underlying performance must have been very strong in that division. So can we think about margins that the underlying business are generating having improved and what's driving that. Is that the new product? Is that just volume in the factories, and if you could comment a little bit about the evolution of that margin?

Frans van Houten: Hi Max, that's a correct observation. We exclude from the results the post-merger integration cost. But obviously the operational results of the acquisitions are part of the adjusted EBITA, as we reported. Some of the acquisitions are early stage and they still have negative EBITA. Others of course like Volcano are now doing very well. But overall, the impact was indeed around 20 basis points and that was both in the D&T and in the CCHI portfolios.

The underlying strength of the profit improvement has to do, on the one hand, with the innovations that we have launched, innovations that have higher gross margin and higher growth. And secondly, of course everybody benefits from the productivity programs that we run with benefits being spread more or less equally across the businesses. And then D&T in particular is benefiting from the market share gains and recovery in diagnostic imaging, where we are also taking costs and productivity measures on top of the overall company measures.

Then I think a special mention is deserved for ultrasound. Philips is the market leader in cardiovascular ultrasound. We have taken a conscious decision to spread our wings also in general imaging and ob-gyn. For that, we have been developing new products over the last 2.5, 3 years. Those products have come into the market in 2017. Start gaining really high traction in order growth, and that will translate itself in higher revenue growth in 2018.

Just to quantify that, we saw in the fourth quarter high-teens order intake growth in ultrasound and double-digit for the whole year. Now, ultrasound is for us a – a very high profit business. So as ultrasound is grow – getting at a higher clip – growing at a higher clip, that will also improve further the profit mix for D&T, but in fact for the whole company because it is significantly above the average of Philips.

Max Yates: Okay, thank you. Just – just one follow-up: obviously we're getting quite a lot of disclosure from one of your peers around the IPO of their business. One that stood out, I think, from their Capital Markets Day was their advanced therapies business. Obviously, it looks sort of somewhat similar to your IGT business, but without the devices that you've acquired. They showed that they were doing a 22% margin in that advanced therapies business. So it looks like, from what we know about your IGT business previously, even before acquiring Volcano and Spectranetics it was quite a lot lower margin that that.

So could you kind of help us a little bit with why you think that is, and whether we're sort of comparing like-with-like? So your IGT business, ex-devices, how does that look from a product standpoint versus their business? And is there any reason those two should be different margin – or materially different margins?

Frans van Houten: Well, prior to the adjacency into devices, our image-guided therapy business was in the high teens. And we have stepped up R&D in that business towards – to launch the Azurion platform, to get into the adjacencies of the hybrid operating room, adding all the software for guidance of the therapies and to work on innovations that leverage the device businesses. We have every conviction that the combined IGT business, so systems and devices, will get to around 20% EBITA by 2020 – so that's kind of 20-2020 – and a – in a total size of around €3 billion in revenue, which is two-thirds systems and one-third devices. I would even volunteer that it doesn't stop in 2020, and it has further room to improve thereafter given the potential in that business.

Now having said all that, look, our eastern neighbours are ahead of us in terms of profitability in the D&T cluster, although I think we are ahead in ultrasound. But we definitely challenge ourselves to emulate that kind of profitability. And therefore, you know, as a stock, Philips has upside to go, and we are demonstrating with an annual improvement of at least 100 bps and actually more so in D&T, that we are also delivering on closing that gap.

Max Yates: Okay, maybe just a sort of one-word answer. On the image-guided therapy business, all in with devices and systems, could you just give us where margins are today relative to that 20% that you talk about in 2020?

Abhijit Bhattacharya: Yeah. We are in the teens there, but we don't give, let's say – more specific than that. So we have, let's say, we –

Speaker: Low – low teens, I guess.

Frans van Houten: We are well enough in the teens that I can achieve the 20% by 2020.

Abhijit Bhattacharya: Exactly.

Frans van Houten: Obviously, if we were to be in the low teens, that would not be possible.

Max Yates: Okay, very helpful. Thank you.

Frans van Houten: – clarity there, no?

Operator: The next question comes from Mr David Vos from Barclays. Please state your question, sir.

David Vos (Barclays): Thanks, gentlemen, for taking my question. Just one on personal health, actually. Clearly OneBlade has been a phenomenal commercial success. I was just curious to know how many of those type of projects, or products indeed you have in the portfolio? I.e., how many products do get to €100 million of sales in – in sort of a short period of time?

And then clearly also what is the runway you see for OneBlade? Can it go to €500 million over a few years? Just can you help us scale that opportunity? Thank you.

Frans van Houten: Yeah, let me first give a general remark. So obviously, we like businesses that have recurring revenues attached to them. And several of our businesses do in personal health: sleep and respiratory care where you have services and masks, oral care where we have brush heads, and then shaving where we have shaver heads. OneBlade is – as a hybrid shaver between wet and dry shaving, has a targeted renewal replacement rate of three to four blades a year. Currently, we are tracking, off the top of my head, at two-and-a-half blades per handle per year. So as we are expanding the market penetration, the blade business is growing and of course comes with very nice margins.

The €100 million in 18 months is – is – for a new category, is quite exceptional; for an existing category, it is quite normal. So when we launch new Sonicare power toothbrushes, you know, you typically – you get to these kind of fast ramp-ups for a single product, so that is – that's quite normal.

Now, your question on, you know, can it be forecast how far OneBlade will go, we think it has a lot of runway. We have not quantified that runway, but if it continues at this – at this clip, then it will more than offset, let's say, the more – the slow growth in the more traditional electric shaving market, which for some years has been more of a stagnant category. And so overall then, we are seeing nice growth in the personal care business.

David Vos: Thank you very much.

Operator: The next question comes from Julien Dormois from Exane. Please go ahead.

Julien Dormois (Exane): Hi, good morning, gentlemen. I'm left with two questions. The first one is I'm trying to reconcile your comments, especially because you've just recorded one of the strongest order intake, you know, in the D&T business for some time in the US. But at the same time, you are guiding to uncertainty starting in 2018. So, is it because you had a very strong – you had very strong orders from hospitals ahead of the addendum[?] of the mandatory coverage from Obamacare in 2018? Or is it just another example of just Dutchman conservatism, as you highlighted before?

And the second question is just a housekeeping one regarding the guidance. You have said that you expect improvements in the course of the year, actually in the back-half of 2018. I was just wondering – I understood that it clearly relates to organic growth accelerating in the course of 2018, but does that also imply that the margin gains will also be stronger in H2 than in H1. Is that right?

Frans van Houten: Well, let's first talk about the – the uncertainty that we see in the US market. That comment covers all our businesses, not just D&T, right? So in – in personal health, we saw somewhat slower growth. In CCHI, we already talked about the postponement of some big orders and, let's say, the increased carefulness of the large hospital providers or care providers to engage, given the uncertainty in the reimbursement landscape. Within that environment, the D&T segment has just done very well, taking orders and market share. We, of course, are keen to continue to outgrow the market, and so you should see the statement of uncertainty more as a generic market assessment.

Also, to offset a little bit of the euphoria around the world economy, right, what we see what governments do across the world is – trying to contain healthcare project growth as they see, you know, ageing population, more chronic disease. And they don't want to see that, those budgets to continue to grow so fast. And that is, I think, where some uncertainty should be – be recognised.

Then on the second question, maybe I'll let Abhijit answer that.

Abhijit Bhattacharya: Yeah, I think what you said is right. We expect both sales growth and therefore related margin growth to be more back-end loaded, similar to the pattern we had this year. So we had strong margin growth in Q3 and Q4, so that helped us to get to the 110 bps for the year, we expect a similar trend next year as well.

Julien Dormois: Okay, that's very helpful, thank you.

Operator: The next question comes from James Moore from Redburn. Please state your question, sir.

James Moore (Redburn): Yeah, morning everyone, Frans, Abhijit. I've got three questions if I could. Could you talk about the margin uplift in D&T for the full year of 2017? Was it similar across the DI, ultra and IGT? Or was there any kind of ranking, of progression, that you could give us? And also, within D&T, can you talk about whether the service margin is relatively stable, and all the upside is coming from equipment, or whether both sides are moving? That's the first question.

And secondly, could you comment on any progressions of market shares in orders from ultrasound to MR and CT? I get the sense that ultrasound must have moved forward, but are they all moving forward? Are there any differences by regions?

And then finally, on the seasonality comment, I mean, if I go back over the last decade, sometimes you say it, sometimes you don't, in the last four years you've done between 66, 67% of full year adjusting EBITA every year, does that decision to comment on the backend mean that this year that we'll see even more than 66-67% of the profit in the second half, or the usual?

Abhijit Bhattacharya: Okay, let me take them one by one. So if you look at D&T, the margin improvements are coming largely across the board. I would say the biggest part of the margin improvement comes in DI, followed by IGT, and in ultrasound actually we are, there has been a value creation story around ultrasound, it's a high margin business, so we are pushing there for growth and not so much the margin improvement, because at the level that we are, the overall cash generation from that business will grow as we grow the size of the business. So highest in DI, second in IGT, and then slightly less in ultrasound. So these margins are by and large stable, so basically we are, you know, the cost reductions and the operating leverage is coming from the growth that we are generating, as well as the costs that we are taking out. The footprint reductions, etc., are impacting more the equipment profitability.

The progression in market share, actually, is across modalities, so as Frans mentioned, although it's double digit growth for D&T, it's high single to very high double digit across the modalities, so it's not that there is a modality which is in the low or mid-single digit. They're all growing extremely well, and I think one of the key drivers there is the renewal of the portfolio. So in DI alone, about 70% of the portfolio is renewed over the last year and a half, and about 60% for the whole of D&T. And that is of course driving the market share growth that we are seeing as well, which is, from our current estimates, about a 60 basis points increase in market share.

Now on the seasonality, the profit that we make through the year is more second half weighted, but what we are telling you is that the year on year improvement will be more in the second half than in the first half.

James Moore: Clear…

Abhijit Bhattacharya: So the overall rating for the year remains, but the improvement is more in the second half than in the first half.

Frans van Houten: Like in the fourth quarter, we had 140 basis points profit improvement in Q4, and slightly below the 100 basis points in the first half of the year.

Abhijit Bhattacharya: Exactly.

James Moore: Great answer, thanks chaps.

Operator: We have a follow up – we have a follow up question from Ms Yi-Dan Wang from Deutsche Bank. Please state your question.

Yi-Dan Wang: Okay, thank you – sorry. Two quick ones. Can you hear –

Frans van Houten: You're not audible.

Yi-Dan Wang: Yes, sorry, I was on a headset, just got rid of that one. So two very quick ones. The one-off cost for the quarter was much lower than expected, just wondering what the reason for that is, is it just cost that's being delayed? Or have you, for some reason, decided not to continue with those programs?

And then secondly, on the financial cost, that also ends up being much lower than consensus expected, could you give us some guidance for 2018? That would be great, thank you.

Abhijit Bhattacharya: On the one-off cost, a couple of reasons. So one is the post-merger integration costs of Spectranetics was lower than we had anticipated, so we have been tied in that, specifically related to IT costs, where we have much more efficient ways of integrating than we had planned earlier.

The second part is a particular programme has moved forward to Q1, so it's not that we are abandoning any cost reduction, but it is linked to the timing of the announcements, and there are certain rules by which you can book those provisions, so that has moved to Q1. We've also mentioned in the press release that we had a bit of release of certain provisions related to legal cases that we had booked earlier that went our way, so that was also a bit of good fortune.

And last but not least, on financial income and expenses, we did get a dividend pay-out from Lumileds, which was not planned, and that helped to reduce the number for Q4. But overall, from an interest expense point of view, we expect new year to be flat to this year. So this year we had a big reduction, over 100 million in the year on our interest costs, and now we expect that to flatten for next year.

Yi-Dan Wang: Okay, and the Lumiled dividend, do we expect some of that next year? Is that… so uncertain that we should just leave it right now?

Abhijit Bhattacharya: Yes, that depends on how Lumiled is performing, and how their cash situation is, but I think that is something we will update you when it happens.

Yi-Dan Wang: Okay. And on the one-off costs, how much of the one-off cost is moving to Q1 2018?

Abhijit Bhattacharya: We have guided specifically for Q1 2018 in the press release, so you have specific guidance for each of the clusters for Q1.

Yi-Dan Wang: Okay, thank you.

Abhijit Bhattacharya: Thank you.

Operator: Thank you, Mr van Houten and Mr Bhattacharya, that was the last question. Please continue.

Frans van Houten: Okay, well thanks everybody for a great session. I think it's very important that we get all the questions, and we'll try to answer them as detailed as possible to get your understanding up. We welcome all the new analysts as part of our community. Feel free to contact Pim Preesman and his team of Investor Relations, you know, later today or throughout the week as more questions come up, because we value the correct understanding of our results. Let me end on the note that we feel very confident and positive about the trajectory that we are on, the order growth that we are seeing, the innovations that are well in demand by our customers, and we also believe that we have behind us all the difficult transformation that some of our competitors still need to go through, so we are going to benefit from that focus, and I think customers recognise that we have made our choices. With that I'd like to close the call. Thank you very much, and have a great day.

[END OF TRANSCRIPT]