

## Press release

February 2, 2018

### Philips Lighting reports 0.5% full year comparable sales growth, 10% operational profitability and EUR 403 million free cash flow

#### Full year 2017 highlights<sup>1</sup>

- Sales of EUR 6,965 million, with an increase in comparable sales of 0.5% (2016: -2.4%)
- Total LED-based comparable sales growth of 19%, representing 65% of total sales (2016: 55%)
- Adjusted EBITA of EUR 699 million (2016: EUR 645 million)
- Adjusted EBITA margin improvement of 90 basis points to 10.0% (2016: 9.1%)
- Net income of EUR 281 million (2016: EUR 185 million)
- Free cash flow of EUR 403 million (2016: EUR 418 million)

#### Fourth quarter 2017 highlights<sup>1</sup>

- Sales of EUR 1,892 million, with an increase in comparable sales of 3.0% (2016: -3.2%)
- Total LED-based comparable sales growth of 19%, now representing 68% of total sales (Q4 2016: 59%)
- Adjusted EBITA of EUR 207 million (Q4 2016: EUR 188 million)
- Adjusted EBITA margin improvement of 120 basis points to 10.9% (Q4 2016: 9.7%)
- Net income of EUR 38 million (Q4 2016: EUR 63 million)
- Free cash flow of EUR 434 million (Q4 2016: EUR 272 million)

#### Shareholder return

- In 2017, EUR 429 million was used for share repurchases and to pay dividend related to 2016
- Propose to pay a cash dividend of EUR 1.25 per share in 2018, representing an increase of 14% and a pay-out ratio of 45%
- Intention to repurchase shares for an amount of up to EUR 150 million in 2018, by participating in share disposals by its main shareholder

**Eindhoven, the Netherlands** – Philips Lighting (Euronext: LIGHT), the world leader in lighting, today announced the company's fourth quarter and full year results 2017. "In line with our objectives, Philips Lighting returned to comparable sales growth in 2017 driven by the growth of LED and connected lighting Systems & Services, which demonstrates the successful execution of our strategy," said CEO Eric Rondolat. "We also further increased our operational profitability with significant improvements in LED, Professional and Home and we delivered a solid free cash flow. This will enable us to continue to invest in growth opportunities, provide a return to shareholders and optimize our balance sheet. Our team remains focused on achieving our medium-term outlook."

<sup>1</sup>This press release contains certain non-IFRS financial measures and ratios, such as comparable sales growth, EBITA, adjusted EBITA and free cash flow, and related ratios, which are not recognized measures of financial performance or liquidity under IFRS. For a reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures, see appendix B, Reconciliation of non-IFRS financial measures, of this press release.

## Outlook

In 2018, we aim to improve our Adjusted EBITA margin to 10.0-10.5%, in line with our medium-term outlook. We will continue to focus on our cost reduction initiatives, and expect to benefit from higher savings as of the second half of 2018. We also aim to deliver positive comparable sales growth for the full year, with a soft start in the first quarter. We expect to generate solid free cash flow in 2018, which is, however, expected to be somewhat lower than the level in 2017 due to higher restructuring payments.

## Capital allocation

### Capital allocation policy

Philips Lighting continues to exercise strict financial discipline in the generation and use of cash and remains committed to managing its financial ratios to maintain a financing structure compatible with an investment-grade profile, including disciplined management of its balance sheet. Furthermore, the company continues to consider seizing non-organic opportunities primarily through small- to medium-sized acquisitions.

### Dividend

In 2017, Philips Lighting paid a dividend of EUR 157 million over full year 2016. The company proposes a dividend of EUR 1.25 per share in cash related to full year 2017, which represents an increase of 14% compared with last year, and a pay-out ratio of 45%. The dividend payment is subject to approval by the Annual General Meeting of Shareholders (AGM) to be held on May 15, 2018. Further details will be provided in the agenda for the AGM.

### Share repurchases

In 2017, the company repurchased shares for an amount of EUR 272 million by participating in share disposals by its main shareholder. Furthermore, the company repurchased shares for a total consideration of EUR 35 million to cover obligations arising from its long-term incentive performance share plan and other employee share plans. For 2018, the company intends to repurchase shares for an amount of up to EUR 150 million by participating in share disposals by its main shareholder.

## Financial review

Fourth quarter			Twelve months			
2016	2017	change	in € million, except percentages	2016	2017	change
		<b>3.0%</b>	<b>Comparable sales growth</b>			<b>0.5%</b>
		-4.6%	Effects of currency movements			-1.6%
		-0.6%	Consolidation and other changes			-1.0%
<b>1,934</b>	<b>1,892</b>	-2.2%	<b>Sales</b>	<b>7,115</b>	<b>6,965</b>	-2.1%
744	731	-1.8%	Adjusted gross margin	2,763	2,752	-0.4%
<b>38.5%</b>	<b>38.6%</b>		<b>Adj. gross margin (as % of sales)</b>	<b>38.8%</b>	<b>39.5%</b>	
-507	-471		Adj. SG&A expenses	-1,917	<b>-1,857</b>	
-86	-80		Adj. R&D expenses	-340	<b>-334</b>	
-593	-551	7.1%	Adj. indirect costs	-2,257	<b>-2,191</b>	2.9%
<b>30.7%</b>	<b>29.1%</b>		<b>Adj. indirect costs (as % of sales)</b>	<b>31.7%</b>	<b>31.5%</b>	
188	207	10.1%	Adjusted EBITA	645	<b>699</b>	8.4%
<b>9.7%</b>	<b>10.9%</b>		<b>Adjusted EBITA margin (%)</b>	<b>9.1%</b>	<b>10.0%</b>	
-52	-88		Adjusted items	-166	<b>-128</b>	
136	119	-12.2%	EBITA	479	<b>571</b>	19.3%
<b>109</b>	<b>75</b>	<b>-31.6%</b>	<b>Income from operations (EBIT)</b>	<b>369</b>	<b>441</b>	<b>19.5%</b>
-12	-12		Net financial income/expense	-67	<b>-43</b>	
-35	-25		Income tax expense	-119	<b>-117</b>	
<b>63</b>	<b>38</b>	<b>-40.3%</b>	<b>Net income</b>	<b>185</b>	<b>281</b>	<b>52.0%</b>
272	434		Free cash flow	418	<b>403</b>	
0.43	0.30		Basic EPS (€)	1.26	<b>2.04</b>	
34,256	<b>32,130</b>		Employees (FTE)	34,256	<b>32,130</b>	

### Fourth quarter

Sales amounted to EUR 1,892 million. On a comparable basis, the increase was 3.0%, driven by LED, Professional and Home, driving total LED-based comparable sales growth of 19%. Total LED-based sales now represent 68% of total sales compared with 59% in the same quarter a year earlier. Europe, the Americas and Greater China contributed to the growth, while market conditions in the Middle East & Turkey, most notably Saudi Arabia, remained challenging. The adjusted gross margin improved by 10 basis points to 38.6%, largely driven by procurement savings and increased productivity, partly offset by price erosion. Adjusted indirect costs as a percentage of sales decreased by 160 basis points to 29.1%, as a result of our cost reduction initiatives. Adjusted EBITA increased to EUR 207 million, resulting in a 120 basis points improvement of the Adjusted EBITA margin to 10.9%. Restructuring and incidental items amounted to EUR 88 million. Restructuring costs were EUR 75 million and incidental items were EUR 12 million. Net income decreased from EUR 63 million to EUR 38 million, due to higher restructuring costs and an impairment of other intangible assets related to business group Professional. Free cash flow reached EUR 434 million compared to EUR 272 million in the same period last year, mainly driven by working capital improvements, in particular the reduction of inventories and receivables.

## Full year

Comparable sales increased by 0.5%, which is a significant improvement compared to the comparable sales decline of 2.4% in full year 2016. Total comparable LED-based sales grew by 19%, now representing 65% of total sales compared with 55% last year. Connected Systems & Services, for both consumers and professionals, continued to grow significantly and represented more than EUR 900 million of sales in 2017. The adjusted gross margin as a percentage of sales improved by 70 basis points to 39.5%, driven by procurement and productivity savings, partly offset by price erosion. Adjusted indirect costs decreased by EUR 66 million, or by 20 basis points to 31.5% as a percentage of sales. Adjusted EBITA increased to EUR 699 million, or 10.0% of sales, driven by significant margin improvements in LED, Professional and Home. Adjusted items amounted to EUR 128 million, mostly related to restructuring costs of EUR 125 million. Net income reached EUR 281 million, a EUR 96 million increase from a year ago, mainly driven by higher profit and lower financial expenses. Free cash flow reached EUR 403 million.

## Business highlights for the fourth quarter

- **LED:** Leading the UN's Global Lighting Challenge, we announced in November that we are the first company to deliver one billion LED lights and that we are on track to meet our commitment of two billion LED lamps and luminaires ahead of our 2020 target. The realized savings are equivalent to the energy generated by 30 medium-sized coal-fired power stations and CO2 emissions from 12 million cars.
- **Professional:** Strengthening our leading position in Systems & Services, we installed Philips CityTouch in numerous cities, including Cardiff and Guadalajara. The total number of installations exceeds 1,000 project installations in 37 countries since 2012. Philips CityTouch allows municipalities to remotely monitor, control and manage their connected street lighting infrastructure through simple web applications and can help reduce energy consumption by up to 70%.
- **Professional:** Continuing our leadership in architectural lighting systems, we installed numerous projects globally, including the North and South Block of the Central Secretariat in New Delhi, the Citadel of Namur and the Hendrix bridge in Zagreb. Our architectural lighting delivers stunning light shows, and when combined with our control systems can result in energy savings of up to 75% in comparison to conventional lighting and reduced operational costs.
- **Professional:** Expanding our global footprint in horticultural lighting systems, we signed our first LED grow light project in New Zealand with Gourmet Mokai Ltd. The LED grow lights help Gourmet Mokai to improve the quality and cost efficiency of growing its popular Campari cocktail tomatoes.
- **Professional:** Signaling our continued leadership in connected LED lighting systems, our large luminous surfaces help travelers using the Scandinavian Airlines Systems (SAS) Experience Lounge at Oslo Gardermoen Airport, to combat jetlag. The new lounge features two Philips Luminous Pattern walls and an innovation hub installed with Philips Luminous Textile panels, which are controlled by the Philips Dynalite System, enabling precise control of the lighting and ambiance creation. There is also a room with a special daylight boosting light designed to energize guests before they fly.
- **Professional:** In collaboration with SAP SE, we launched a new social impact analytics app, helping us to capture adjacent value through new Services business models. The app is designed to help cities and owners of sites to collect accurate feedback on the social and media impact of public lighting projects. This facilitates better engagement with citizens, improves strategies to boost tourism and enhances value for the local economy.
- **Home:** Philips Hue further strengthened its leadership position by adding Baidu as a 'Friends of Hue' partner in China, expanding voice control over Philips Hue lights to Baidu's DuerOS operating system. The partnership makes it easier for Chinese consumers to set-up connected lighting and accelerates the adoption of smart home technology in China.

## Operational performance by business group

### Lamps

Fourth quarter			in € million, unless otherwise indicated	Twelve months		
2016	2017	change		2016	2017	change
		-18.4%	Comparable sales growth (%)			-18.6%
576	442	-23.3%	Sales	2,333	1,820	-22.0%
110	76	-30.7%	Adjusted EBITA	472	370	-21.6%
19.1%	17.3%*		Adjusted EBITA margin (%)	20.2%	20.3%	
93	33		EBITA	435	350	
93	33		Income from operations (EBIT)	433	349	

\* Includes a one-off (non-cash) negative impact from adjusting the calculation method for unrealized intercompany profits

#### Fourth quarter

Sales amounted to EUR 442 million, a comparable decline of 18.4%. Adjusted EBITA decreased to EUR 76 million, due to the sales decline, partly offset by procurement, productivity and indirect cost savings. This resulted in an Adjusted EBITA margin of 17.3%. The margin in Lamps includes a one-off (non-cash) negative impact of 120 basis points from adjusting the calculation method for unrealized intercompany profits.

#### Full year

Sales amounted to EUR 1,820 million, a decline of 18.6% on a comparable basis, due to the rapid transition from conventional to LED lighting. Adjusted EBITA decreased to EUR 370 million. The Adjusted EBITA margin increased by 10 basis points to 20.3%, driven by ongoing pro-active rationalization of the manufacturing footprint as well as by productivity and procurement savings. The company estimates that the conventional lighting market declined at a faster pace than its Lamps business in full year 2017, which has resulted in continued market share gains.

This performance reflects the successful implementation of our “last man standing” strategy to continue to extract value from the conventional business, supporting our objective to maintain an Adjusted EBITA margin of at least 16% until 2019.

### LED

Fourth quarter			in € million, unless otherwise indicated	Twelve months		
2016	2017	change		2016	2017	change
		5.1%	Comparable sales growth (%)			13.8%
440	440	0.1%	Sales	1,518	1,703	12.2%
53	46	-14.0%	Adjusted EBITA	142	174	22.7%
12.0%	10.4%		Adjusted EBITA margin (%)	9.4%	10.2%	
52	44		EBITA	140	169	
51	43		Income from operations (EBIT)	136	165	

#### Fourth quarter

Sales amounted to EUR 440 million, a comparable increase of 5.1%, driven by continued double-digit volume growth, partly offset by lower selling prices and stronger growth in more affordable products. Growth in LED lamps remained robust, while growth in LED electronics continued to slow down due to lower demand by OEM customers, particularly in the Americas. All regions contributed to growth, although some countries in Europe showed more moderate sales growth due to high LED penetration rates. Adjusted EBITA decreased to EUR 46 million, due to lower volume growth in LED electronics and less fixed cost coverage, while the gross margin remained solid. As a result, the Adjusted EBITA margin decreased by 160 basis points to 10.4%.

## Full year

Sales amounted to EUR 1,703 million, resulting in comparable sales growth of 13.8%. Volumes were higher due to lower selling prices and stronger growth in affordable products. All regions contributed to growth, with countries with low LED penetration rates continuing to show higher growth. Adjusted EBITA increased to EUR 174 million, driven by continued operational leverage, procurement savings and innovation. The Adjusted EBITA margin increased by 80 basis points to 10.2%.

This performance illustrates the benefit of our strategy focused on innovation and operational leverage, which enabled us to reach the lower-end of our 2019 Adjusted EBITA margin objective of 10-12%.

## Professional

Fourth quarter			<i>in € million, unless otherwise indicated</i>	Twelve months		
2016	2017	change		2016	2017	change
		11.2%	Comparable sales growth (%)			4.6%
734	781	6.2%	Sales	2,683	2,755	2.7%
51	95	87.0%	Adjusted EBITA	145	225	55.3%
6.9%	12.2%		Adjusted EBITA margin (%)	5.4%	8.2%	
46	87		EBITA	93	181	
19	44		Income from operations (EBIT)	-9	62	

### Fourth quarter

Sales amounted to EUR 781 million, an increase of 11.2% on a comparable basis. All regions contributed to growth. The performance in Europe and the Rest of the World continued to be solid. The comparable sales trend in the United States improved compared to previous quarters, benefiting from sales improvement initiatives that have taken place in recent years and the revenues related to a large-scale project. Market conditions in Saudi Arabia remained challenging, negatively impacting comparable sales growth by 330 basis points. Adjusted EBITA increased by 87% to EUR 95 million. The Adjusted EBITA margin increased by 530 basis points to 12.2%, mainly driven by operational leverage, manufacturing footprint rationalization and indirect cost savings.

### Full year

Sales were EUR 2,755 million and resulted in a 4.6% increase on a comparable basis, driven by robust growth in Europe and the Rest of the World. Market conditions in Saudi Arabia remained challenging. The performance in the United States was impacted by soft market conditions, particularly for small- to medium-sized projects. Adjusted EBITA was EUR 225 million. The Adjusted EBITA margin improved by 280 basis points to 8.2%, driven by operational leverage, procurement savings, cost reductions and a positive mix impact.

Professional continued to implement its strategy focused on the development of LED luminaire sales, fast growth of Systems & Services and the continued rationalization of its cost structure, supporting our continued ambition to increase the Adjusted EBITA margin to 11-14% by 2019.

## Home

Fourth quarter			Twelve months		
2016	2017	change	in € million, unless otherwise indicated	2016	2017
		37.3%	Comparable sales growth (%)		26.5%
178	232	29.8%	Sales	559	684
3	20	556.0%	Adjusted EBITA	-20	36
1.7%	8.5%		Adjusted EBITA margin (%)	-3.6%	5.2%
-1	18		EBITA	-46	31
0	18		Income from operations (EBIT)	-48	27

### Fourth quarter

Sales amounted to EUR 232 million, an increase of 37.3% on a comparable basis, mainly driven by significant growth in Home Systems, and solid growth in Home Luminaires. Adjusted EBITA increased by EUR 17 million to EUR 20 million, improving the Adjusted EBITA margin by 680 basis points to 8.5%, driven by operational leverage and procurement savings.

### Full year

Sales increased to EUR 684 million, resulting in comparable sales growth of 26.5%, driven by sustained growth in both Home Systems and Home Luminaires as a result of the continued focus on innovation. Demand for Philips Hue increased significantly in 2017, illustrating the success of our connected lighting system strategy, largely as a result of our continued focus on innovation, and our strong partnerships with the makers of recently introduced voice-activated smart home devices. Adjusted EBITA was positive in 2017 and amounted to EUR 36 million, or 5.2% as a percentage of sales. Excluding the impact of a real estate gain in the second quarter, the Adjusted EBITA margin was 3.1%, exceeding our objective to become breakeven for the full year.

The strategy for Home focuses on consumer experience and innovation, leveraging our strengths in connected lighting systems for the home. This should enable Home to continue to generate double-digit sales growth and reach an Adjusted EBITA margin in the range of 5-8% by 2019.

## Other

### Fourth quarter

Adjusted EBITA amounted to EUR -30 million in the quarter (Q4 2016: EUR -29 million). Adjusted EBITA in Other represents amounts not allocated to the operating segments and is comprised of certain costs related to group enabling functions as well as central R&D activities to drive innovation. EBITA amounted to EUR -63 million (Q4 2016: EUR -54 million), including restructuring costs of EUR 21 million (Q4 2016: EUR -1 million). Other incidental items not part of the Adjusted EBITA included a charge of EUR 8 million for separation costs (Q4 2016: EUR 25 million).

### Full year

Adjusted EBITA amounted to EUR -106 million for full year 2017 (2016: EUR -94 million). The decrease can mainly be explained by additional expenses to support innovation and an acceleration of investments in our Ventures business to support future growth ambitions. EBITA amounted to EUR -160 million (2016: EUR -143 million), including EUR 24 million separation costs (2016: EUR 62 million) and EUR 29 million restructuring costs (2016: EUR 1 million).

## Sales by market

Fourth quarter				in € million, except percentages	Twelve months		
2016	2017	Change	CSG*		2016	2017	change
633	661	4.4%	4.5%	Europe	2,208	2,292	3.8%
581	564	-2.8%	4.7%	Americas	2,245	2,151	-4.2%
600	547	-9.0%	-0.8%	Rest of the World	2,156	2,067	-4.2%
120	121	-0.2%	5.9%	Global businesses	506	456	-10.0%
<b>1,934</b>	<b>1,892</b>	<b>-2.2%</b>	<b>3.0%</b>	<b>Total</b>	<b>7,115</b>	<b>6,965</b>	<b>-2.1%</b>
<i>* CSG: Comparable Sales Growth</i>							

\* CSG: Comparable Sales Growth

### Fourth quarter

Comparable sales in Europe increased by 4.5%, driven by solid performance in, among others, Germany, France, and Central Eastern Europe. In the Americas, sales increased by 4.7% on a comparable basis. North America benefitted from significant growth in Home Systems, and from a large-scale project in Professional as well as from improvement initiatives that have taken place in recent years. Comparable sales for the Rest of the World remained relatively flat at -0.8%, with a solid performance in markets like India, Russia and Greater China, offset by continued challenging market conditions in Saudi Arabia.

### Full year

Comparable sales in Europe increased by 4.5%, driven by a solid performance in, among others, the Benelux, Germany and Iberia. In the Americas, sales decreased by -2.3% on a comparable basis due to an accelerated decline in conventional lighting and softer market conditions, most notably in the United States. Comparable sales for the Rest of the World remained relatively flat at -0.8%, with a solid performance in markets like India, Russia and Greater China, offset by continued challenging market conditions in Saudi Arabia.

## Financial condition

### Working capital

in € million, unless otherwise indicated	31 Dec '16	30 Sep '17	31 Dec '17
Inventories	886	1,137	924
Receivables	1,600	1,447	1,373
Accounts and notes payable	-1,024	-1,015	-1,001
Accrued liabilities	-502	-452	-475
Other	-298	-280	-264
<b>Working capital</b>	<b>662</b>	<b>837</b>	<b>557</b>
As % of LTM* sales	9.3%	11.9%	8.0%

\* LTM: Last Twelve Months

### Fourth quarter

In the fourth quarter, working capital decreased by EUR 280 million to EUR 557 million, representing 8.0% of sales, mainly driven by significantly reduced inventories and lower receivables compared to last quarter.

### Full year

Working capital decreased by EUR 105 million to EUR 557 million, or 8.0% of sales. The improvement was driven by significantly lower receivables compared to 2016.

## Cash flow analysis

Fourth quarter			Twelve months	
2016	2017	in € million	2016	2017
109	75	Income from operations (EBIT)	369	441
73	88	Depreciation and amortization	291	286
170	259	Change in working capital	119	-33
-26	-22	Net capex	-87	-31
-20	21	Change in provisions	-71	-101
-8	-5	Interest paid	-29	-15
-23	-18	Income taxes paid	-96	-101
-3	35	Other	-78	-41
<b>272</b>	<b>434</b>	<b>Free cash flow</b>	<b>418</b>	<b>403</b>

### Fourth quarter

Free cash flow of EUR 434 million was mainly attributable to robust working capital performance, in particular the reduction of inventories and receivables. The change in provisions was driven by additions to the restructuring provision. No payments related to the separation from Royal Philips were made in the fourth quarter.

### Full year

Full year free cash flow of EUR 403 million was EUR 15 million lower than last year due to higher inventories, partly offset by lower receivables, separation costs, net capex and interest paid.

## Net debt

in € million	31 Dec '16	30 Sep '17	31 Dec '17
Short-term debt	155	139	140
Short-term loans payable to Royal Philips	2	-	-
Long-term debt	1,224	1,176	1,170
Gross debt	1,381	1,314	1,309
Cash and cash equivalents	1,040	605	942
<b>Net debt</b>	<b>341</b>	<b>709</b>	<b>367</b>
 <b>Total equity</b>	 <b>2,808</b>	 <b>2,432</b>	 <b>2,321</b>

### Fourth quarter

The net debt amounted to EUR 367 million, a reduction of EUR 342 million compared to the third quarter, which was mainly driven by free cash flow, partly offset by the repurchase of shares from our main shareholder of EUR 90 million. The cash position increased to EUR 942 million. Total equity decreased to EUR 2,321 million at the end of the fourth quarter (Q3 2017: EUR 2,432 million), due to the repurchase of shares and currency translation results which were partly offset by the net income for the period. Total equity minus net debt amounted to EUR 1,954 million.

## Full year

Net debt increased by EUR 26 million to EUR 367 million which was driven by a reduction in cash, partly offset by a reduction in gross debt. Net leverage ratio remained stable at 0.5. Total equity decreased by EUR 487 million to EUR 2,321 million due to the repurchase of shares, currency translation results and dividend distribution, partly offset by the net income for the period.

## Other information

Following tax reforms in the United States and Belgium, Philips Lighting expects the impact of the changes on its effective tax rate to be relatively neutral. The company anticipates the effective tax rate to be in the high twenties in 2018, excluding the impact of non-recurring items.

## Other information

Appendix A – Financial Statement Information

Appendix B – Reconciliation of non-IFRS Financial Measures

Appendix C – Financial Glossary

\*\*\*

### Financial calendar 2018

February 27, 2018	Annual report 2017
April 26, 2018	First quarter results 2018
May 15, 2018	Annual General Meeting of Shareholders
July 27, 2018	Half year results 2018
October 26, 2018	Third quarter results 2018

### Conference call and audio webcast

Eric Rondolat (CEO) and Stéphane Rougeot (CFO) will host a conference call for analysts and institutional investors at 09:00 a.m. CET to discuss fourth quarter and full year results. A live audio webcast of the conference call will be available via the [Philips Lighting Investor Relations website](#).

### For further information, please contact:

#### Philips Lighting Investor Relations

Robin Jansen

Tel: +31 6 1594 4569

E-mail: [robin.j.jansen@philips.com](mailto:robin.j.jansen@philips.com)

#### Philips Lighting Communications

Elco van Groningen

Tel: +31 6 1086 5519

E-mail: [elco.van.groningen@philips.com](mailto:elco.van.groningen@philips.com)

### About Philips Lighting

Philips Lighting (Euronext: LIGHT), the world leader in lighting products, systems and services, delivers innovations that unlock business value, providing rich user experiences that help improve lives. Serving professional and consumer markets, we lead the industry in leveraging the Internet of Things to transform homes, buildings and urban spaces. With 2017 sales of EUR 7.0 billion, we have approximately 32,000 employees in over 70 countries. News from Philips Lighting is located at the [Newsroom](#), [Twitter](#) and [LinkedIn](#). Information for investors can be found on the [Investor Relations](#) page.

## Important Information

### Forward-Looking Statements and Risks & Uncertainties

This document and the related oral presentation contain, and responses to questions following the presentation may contain, forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Philips Lighting N.V. (the "Company", and together with its subsidiaries, the "Group"), including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, impact of the Group's operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see "Risk Factors and Risk Management" in Chapter 12 of the Annual Report 2016 for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Company's Annual Report 2016 and the semi-annual report for the first half of 2017.

Risks currently not known to the Group or that the Group has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group or could cause the forward-looking events discussed in this document not to occur. The Group undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

### Market and Industry Information

All references to market share, market data, industry statistics and industry forecasts in this document consist of estimates compiled by industry professionals, competitors, organizations or analysts, of publicly available information or of the Group's own assessment of its sales and markets. Rankings are based on sales unless otherwise stated.

### Non-IFRS Financial Measures

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Group's business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see "Chapter 17 Reconciliation of non-IFRS measures" in the Annual Report 2016.

### Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided. All reported data are unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2016.

As part of the financial reporting improvement process, the presentation of the line item "Results relating to investments in associates" was moved into the subtotal "Income before taxes" in the Condensed consolidated statements of income. This change did not impact the income of operations or financial position.

### Market Abuse Regulation

This press release contains information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

## Appendix A – Financial statement information

### A. CONDENSED CONSOLIDATED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated

	Q4		January to December	
	2016	2017	2016	2017
Sales	1,934	1,892	7,115	6,965
Cost of sales	(1,211)	(1,202)	(4,438)	(4,264)
<b>Gross margin</b>	<b>723</b>	<b>691</b>	<b>2,677</b>	<b>2,701</b>
Selling expenses	(468)	(454)	(1,750)	(1,738)
Research and development expenses	(87)	(90)	(353)	(354)
General and administrative expenses	(70)	(70)	(248)	(221)
Impairment of goodwill	-	-	(2)	(1)
Other business income	15	7	60	72
Other business expenses	(4)	(9)	(15)	(18)
<b>Income from operations</b>	<b>109</b>	<b>75</b>	<b>369</b>	<b>441</b>
Financial income	5	2	11	8
Financial expenses	(17)	(14)	(78)	(51)
Results relating to investments in associates	1	-	2	-
<b>Income before taxes</b>	<b>98</b>	<b>63</b>	<b>304</b>	<b>398</b>
Income tax expense	(35)	(25)	(119)	(117)
<b>Net income</b>	<b>63</b>	<b>38</b>	<b>185</b>	<b>281</b>
<b>Attribution of net income for the period:</b>				
Net income attributable to shareholders of Philips Lighting N.V.	64	42	189	294
Net income attributable to non-controlling interests	(1)	(5)	(4)	(12)
<b>Earnings per ordinary share attributable to shareholders</b>				
Weighted average number of ordinary shares outstanding used for calculation (in thousands):				
Basic	150,000	141,025	150,000	143,778
Diluted	150,000	141,559	150,000	144,202
Net income attributable to shareholders per ordinary share in EUR:				
Basic	0.43	0.30	1.26	2.04
Diluted	0.43	0.30	1.26	2.04

Amounts may not add up due to rounding

## B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR

	Q4		January to December	
	2016	2017	2016	2017
<b>Net income for the period</b>	<b>63</b>	<b>38</b>	<b>185</b>	<b>281</b>
Pensions and other post-employment plans:				
Remeasurements	(6)	4	(8)	3
Income tax effect on remeasurements	1	(2)	1	(2)
<b>Total of items that will not be reclassified to profit or loss</b>	<b>(5)</b>	<b>2</b>	<b>(7)</b>	<b>1</b>
Currency translation differences:				
Net current period change, before tax	135	(49)	66	(289)
Income tax effect	-	-	-	-
Cash flow hedges:				
Net current period change, before tax	1	13	2	(3)
Income tax effect	-	(3)	-	-
<b>Total of items that are or may be reclassified to profit or loss</b>	<b>136</b>	<b>(39)</b>	<b>68</b>	<b>(292)</b>
<b>Other comprehensive income (loss)</b>	<b>131</b>	<b>(37)</b>	<b>61</b>	<b>(291)</b>
<b>Total comprehensive income (loss)</b>	<b>194</b>	<b>1</b>	<b>246</b>	<b>(10)</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Shareholders of Philips Lighting N.V.	189	7	247	14
Non-controlling interests	5	(6)	(1)	(24)

Amounts may not add up due to rounding

## C. CONDENSED CONSOLIDATED BALANCE SHEETS

In millions of EUR

	December 31, 2016	December 31, 2017
<b>Non-current assets</b>		
Property, plant and equipment		
· At cost	2,522	2,333
· Less accumulated depreciation	<u>(1,956)</u>	<u>(1,841)</u>
	566	492
Goodwill	1,899	1,694
Intangible assets, excluding goodwill		
· At cost	2,238	2,018
· Less accumulated amortization	<u>(1,470)</u>	<u>(1,455)</u>
	768	562
Non-current receivables	25	49
Investments in associates	26	21
Other non-current financial assets	11	12
Deferred tax assets	472	440
Other non-current assets	28	35
<b>Total non-current assets</b>	<b>3,795</b>	<b>3,306</b>
<b>Current assets</b>		
Inventories	886	924
Other current assets	52	77
Derivative financial assets	29	16
Income tax receivable	50	39
Receivables:		
· Accounts receivable	1,489	1,311
· Other current receivables	<u>111</u>	<u>62</u>
	1,600	1,373
Receivables	3	1
Assets classified as held for sale	1,040	942
<b>Total current assets</b>	<b>3,660</b>	<b>3,372</b>
<b>Total assets</b>	<b>7,455</b>	<b>6,678</b>
<b>Equity</b>		
Shareholders' equity	2,704	2,242
Non-controlling interests	104	79
<b>Total equity</b>	<b>2,808</b>	<b>2,321</b>
<b>Non-current liabilities</b>		
Long-term debt	1,224	1,170
Long-term provisions	881	777
Deferred tax liabilities	35	27
Other non-current liabilities	150	167
<b>Total non-current liabilities</b>	<b>2,290</b>	<b>2,140</b>
<b>Current liabilities</b>		
Short-term debt	157	140
Derivative financial liabilities	26	8
Income tax payable	57	79
Account and notes payable	1,024	1,001
Accrued liabilities	502	475
Short-term provisions	244	204
Liabilities directly associated with assets classified held for sale	1	-
Other current liabilities	346	309
<b>Total current liabilities</b>	<b>2,357</b>	<b>2,216</b>
<b>Total liabilities and total equity</b>	<b>7,455</b>	<b>6,678</b>

Amounts may not add up due to rounding

## D. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of EUR

	January to December	
	2016	2017
<b>Cash flows from operating activities</b>		
Net income	185	281
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and impairment of non-financial assets	291	286
Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	7	-
Net gain on sale of assets	(12)	(53)
Interest income	(6)	(7)
Interest expense on debt, borrowings and other liabilities	48	41
Income tax expense	119	117
Decrease (increase) in working capital:	119	(33)
Decrease (increase) in receivables and other current assets	(27)	74
Decrease (increase) in inventories	104	(124)
Increase (decrease) in accounts payable, accrued and other current liabilities	42	17
Increase (decrease) in non-current receivables, other assets and other liabilities	(66)	7
Increase (decrease) in provisions	(71)	(101)
Interest paid	(29)	(15)
Income taxes paid	(96)	(101)
Other items	16	14
<b>Net cash provided by (used for) operating activities</b>	<b>505</b>	<b>435</b>
<b>Cash flows from investing activities</b>		
Net capital expenditures:	(87)	(31)
Additions of intangible assets	(30)	(20)
Capital expenditures on property, plant and equipment	(79)	(76)
Proceeds from disposal of property, plant and equipment	22	64
Net proceeds from (cash used for) derivatives and current financial assets	(5)	7
Proceeds from other non-current financial assets	3	3
Purchases of other non-current financial assets	(7)	(5)
Purchases of businesses, net of cash acquired	-	(3)
Proceeds from sale of interests in businesses, net of cash disposed of	34	4
<b>Net cash used for investing activities</b>	<b>(62)</b>	<b>(26)</b>
<b>Cash flows from financing activities</b>		
Funding by (distribution to) Royal Philips	(1,400)	3
Dividends paid	(10)	(158)
Capital contribution from Royal Philips	692	-
Proceeds from issuance (payments) of debt	1,225	(22)
Purchases of treasury shares	-	(307)
<b>Net cash provided by (used for) financing activities</b>	<b>506</b>	<b>(484)</b>
<b>Net cash provided by (used for) operations</b>	<b>949</b>	<b>(75)</b>
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts	8	(39)
Cash and cash equivalents and bank overdrafts at the beginning of the period	83	1,040
<b>Cash and cash equivalents and bank overdrafts at the end of the period <sup>1)</sup></b>	<b>1,040</b>	<b>925</b>
1) Cash and cash equivalents and bank overdrafts comprise the following at December 31:		
Cash and cash equivalents	1,040	942
Bank overdrafts	-	(17)
<b>Cash and cash equivalents and bank overdrafts</b>	<b>1,040</b>	<b>925</b>

Amounts may not add up due to rounding

## Appendix B – Reconciliation of non-IFRS Financial Measures

### Sales growth composition

**Sales growth composition in %**

	Fourth quarter			
	comparable growth	currency effects	consolidation and other changes	nominal growth
<b>2017 vs 2016</b>				
Lamps	-18.4	-4.1	-0.8	-23.3
LED	5.1	-5.1	-	0.1
Professional	11.2	-4.7	-0.2	6.2
Home	37.3	-4.7	-2.8	29.8
Other	-115.1	-2.7	0.0	-117.8
<b>Total</b>	<b>3.0</b>	<b>-4.6</b>	<b>-0.6</b>	<b>-2.2</b>

	January to December			
	comparable growth	currency effects	consolidation and other changes	nominal growth
<b>2017 vs 2016</b>				
Lamps	-18.6	-1.2	-2.1	-22.0
LED	13.8	-1.8	0.3	12.2
Professional	4.6	-1.8	-0.1	2.7
Home	26.5	-1.9	-2.3	22.3
Other	-83.7	-1.9	-	-85.6
<b>Total</b>	<b>0.5</b>	<b>-1.6</b>	<b>-1.0</b>	<b>-2.1</b>

**Sales growth composition in %**

	Fourth quarter			
	comparable growth	currency effects	consolidation and other changes	nominal growth
<b>2017 vs 2016</b>				
Europe	4.5	-0.2	-	4.4
Americas	4.7	-7.1	-0.4	-2.8
Rest of the World	-0.8	-7.5	-0.6	-9.0
Global businesses	5.9	-1.3	-4.8	-0.2
<b>Total</b>	<b>3.0</b>	<b>-4.6</b>	<b>-0.6</b>	<b>-2.2</b>

	January to December			
	comparable growth	currency effects	consolidation and other changes	nominal growth
<b>2017 vs 2016</b>				
Europe	4.5	-0.7	-0.1	3.8
Americas	-2.3	-1.6	-0.3	-4.2
Rest of the World	-0.8	-3.0	-0.4	-4.2
Global businesses	1.0	-0.3	-10.7	-10.0
<b>Total</b>	<b>0.5</b>	<b>-1.6</b>	<b>-1.0</b>	<b>-2.1</b>

Amounts may not add up due to rounding

## Adjusted EBITA to Income from operations (or EBIT) in millions of EUR

	Philips Lighting	Lamps	LED	Professional	Home	Other
<b>October to December 2017</b>						
Adjusted EBITA	207	76	46	95	20	(30)
Restructuring	(75)	(43)	(1)	(8)	(1)	(21)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(12)	-	-	-	-	(12)
EBITA	119	33	44	87	18	(63)
Amortization <sup>1)</sup>	(45)	-	(1)	(43)	-	(1)
<b>Income from operations (or EBIT)</b>	<b>75</b>	<b>33</b>	<b>43</b>	<b>44</b>	<b>18</b>	<b>(64)</b>
<b>October to December 2016</b>						
Adjusted EBITA	188	110	53	51	3	(29)
Restructuring	(25)	(17)	(1)	(4)	(4)	1
Acquisition-related charges	(2)	-	-	(1)	-	(1)
Incidental items	(25)	-	-	-	-	(25)
EBITA	136	93	52	46	(1)	(54)
Amortization <sup>1)</sup>	(27)	-	(1)	(27)	1	-
<b>Income from operations (or EBIT)</b>	<b>109</b>	<b>93</b>	<b>51</b>	<b>19</b>	<b>-</b>	<b>(54)</b>
<b>January to December 2017</b>						
Adjusted EBITA	699	370	174	225	36	(106)
Restructuring	(125)	(41)	(5)	(45)	(4)	(29)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(3)	21	-	-	-	(24)
EBITA	571	350	169	181	31	(160)
Amortization <sup>1)</sup>	(130)	(1)	(4)	(119)	(5)	(2)
<b>Income from operations (or EBIT)</b>	<b>441</b>	<b>349</b>	<b>165</b>	<b>62</b>	<b>27</b>	<b>(161)</b>
<b>January to December 2016</b>						
Adjusted EBITA	645	472	142	145	(20)	(94)
Restructuring	(115)	(37)	(2)	(49)	(26)	(1)
Acquisition-related charges	(3)	-	-	(3)	-	-
Incidental items	(48)	-	-	-	-	(48)
EBITA	479	435	140	93	(46)	(143)
Amortization <sup>1)</sup>	(110)	(2)	(4)	(102)	(2)	-
<b>Income from operations (or EBIT)</b>	<b>369</b>	<b>433</b>	<b>136</b>	<b>(9)</b>	<b>(48)</b>	<b>(143)</b>

<sup>1)</sup> Amortization and impairment of acquisition related intangible assets and goodwill

Amounts may not add up due to rounding

## Adjusted Gross Margin in millions of EUR unless otherwise stated

	October to December 2016	October to December 2017	January to December 2016	January to December 2017
Sales	1,934	1,892	7,115	6,965
Cost of Sales	(1,211)	(1,202)	(4,438)	(4,264)
<b>Gross Margin</b>	<b>723</b>	<b>691</b>	<b>2,677</b>	<b>2,701</b>
Restructuring	20	40	85	51
Acquisition-related charges	-	-	-	-
Incidental items	1	1	1	1
<b>Adjusted Gross Margin</b>	<b>744</b>	<b>731</b>	<b>2,763</b>	<b>2,752</b>
Adjusted Gross Margin %	38.5%	38.6%	38.8%	39.5%

## Adjusted SG&A expenses in millions of EUR unless otherwise stated

	October to December 2016	October to December 2017	January to December 2016	January to December 2017
Selling expenses	(468)	(454)	(1,750)	(1,738)
G&A expenses	(70)	(70)	(248)	(221)
<b>SG&amp;A expenses</b>	<b>(538)</b>	<b>(524)</b>	<b>(1,998)</b>	<b>(1,959)</b>
Restructuring *	4	25	17	58
Acquisition-related charges	2	-	3	-
Incidental items *	25	28	61	44
<b>Adjusted SG&amp;A expenses</b>	<b>(507)</b>	<b>(471)</b>	<b>(1,917)</b>	<b>(1,857)</b>
Adjusted SG&A expenses %	-26.2%	-24.9%	-26.9%	-26.7%

\* This line includes impairment of acquisition related intangible assets

## Adjusted R&D expenses in millions of EUR unless otherwise stated

	October to December 2016	October to December 2017	January to December 2016	January to December 2017
<b>R&amp;D expenses</b>	<b>(87)</b>	<b>(90)</b>	<b>(353)</b>	<b>(354)</b>
Restructuring	1	10	13	20
Acquisition-related charges	-	-	-	-
Incidental items	-	-	-	-
<b>Adjusted R&amp;D expenses</b>	<b>(86)</b>	<b>(80)</b>	<b>(340)</b>	<b>(334)</b>
Adjusted R&D expenses %	-4.4%	-4.2%	-4.8%	-4.8%

Amounts may not add up due to rounding

## Appendix C – Financial glossary

<b>Acquisition-related charges</b>	Costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses
<b>Adjusted EBITA</b>	EBITA excluding restructuring costs, acquisition-related charges and other incidental charges
<b>Adjusted EBITA margin (%)</b>	Adjusted EBITA divided by Sales to third parties (excluding intersegment)
<b>Adjusted gross margin</b>	Gross margin, excluding restructuring costs, acquisition-related charges and other incidental items attributable to cost of sales
<b>Adjusted indirect costs</b>	Indirect costs, excluding restructuring costs, acquisition-related charges and other incidental items attributable to indirect costs
<b>Adjusted R&amp;D expenses</b>	Research and development expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to research and development expenses
<b>Adjusted SG&amp;A expenses</b>	Selling, general and administrative expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to selling, general and administrative expenses
<b>Comparable sales growth</b>	The period-on-period growth in sales excluding the effects of currency movements and changes in consolidation and other changes
<b>EBIT</b>	Income from operations
<b>EBITA</b>	Income from operations excluding amortization and impairment of acquisition related intangible assets and goodwill
<b>EBITDA</b>	Income from operations excluding depreciation, amortization and impairment of non-financial assets
<b>Effects of changes in consolidation and other changes</b>	In the event a business is acquired (or divested), the impact of the consolidation (or de-consolidation) on the Group's figures are included (or excluded) in the comparable figures. Other changes include regulatory changes and changes originating from new accounting standards
<b>Effects of currency movements</b>	Calculated by translating previous periods' foreign currency amounts into euro at the following periods' exchange rates in comparison to the euro as historically reported
<b>Employees</b>	Employees of Philips Lighting at period end expressed on a full-time equivalent (FTE) basis
<b>Free cash flow</b>	Net cash provided by operations minus net capital expenditures. Free cash flow includes interest paid and income taxes paid
<b>Gross margin</b>	Sales minus cost of sales
<b>Indirect costs</b>	The sum of Selling, R&D and General and administrative expenses
<b>Net capital expenditures</b>	Additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment, and intangible assets

<b>Incidental charges</b>	Any item with an income statement impact (loss or gain) that is deemed to be both significant and not part of normal business activity. Other incidental items may extend over several quarters within the same financial year
<b>Net debt</b>	Short-term debt, long-term debt minus cash and cash equivalents
<b>Net leverage ratio</b>	The ratio of consolidated total net debt to adjusted consolidated EBITDA for the purpose of calculating the facility covenant for the term loan and revolving credit facility
<b>R&amp;D expenses</b>	Research and development expenses
<b>Restructuring costs</b>	The estimated costs of initiated reorganizations, the most significant of which have been approved by the Group, and which generally involve the realignment of certain parts of the industrial and commercial organization
<b>SG&amp;A expenses</b>	Selling, General and Administrative expenses
<b>Working capital</b>	The sum of Inventories, Receivables, Other current assets, Derivative financial assets, Income tax receivable minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, Income tax payable and Other current liabilities