PHILIPS Lighting

Press release

April 26, 2018

Philips Lighting reports first quarter sales of EUR 1.5 billion and operational profitability of 7%

First quarter 2018 highlights[1]

- Sales of EUR 1,501 million, a comparable decrease of 3.5%
- Total LED-based comparable sales growth of 5.6%, representing 68% of total sales (Q1 2017: 61%)
- Adjusted EBITA of EUR 106 million (Q1 2017: EUR 127 million)
- Adjusted EBITA margin decreased 50 basis points to 7.0%; improvements in Lamps, LED and Professional offset by Home
- Cost reduction initiatives on track; adjusted indirect costs down 13%
- Net income of EUR 20 million (Q1 2017: EUR 61 million) reflecting higher restructuring costs, lower profitability and a one-off real estate gain in Q1 2017
- Free cash flow of EUR -6 million (Q1 2017: EUR -17 million excluding real estate proceeds)

Eindhoven, the Netherlands – Philips Lighting (Euronext: LIGHT), the world leader in lighting, today announced the company's 2018 first quarter results. "As previously indicated, the first quarter marks a soft start to the year, mainly due to a weak performance in Home, most notably in the United States. Our other three businesses further improved their operational profitability, particularly Professional which increased its adjusted EBITA margin by 310 basis points," said Eric Rondolat, CEO of Philips Lighting. "I am pleased with the progress made on the cost side with a 13% reduction in our indirect cost base, and with our free cash flow performance after a strong fourth quarter. Our focus remains on implementing our strategy toward the shift to LED, Systems & Services."

Outlook

We aim to improve our Adjusted EBITA margin from 9.6% to 10.0-10.5%. 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 on the basis of a strong second half. 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.

[1]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.

Changes to financial reporting

As of the first quarter of 2018, Philips Lighting reports and discusses its financial performance based on the recently announced portfolio changes to further align the organizational structure with the strategy. In March 2018, the company provided **an update** to show the effect of changes to the business portfolio as well as changes to the allocation methods of centrally-managed costs and to the threshold for other incidental items as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA.

Financial review

	First quarter		
in € million, except percentages	2017	2018	change
Comparable sales growth			**-3.5%**
Effects of currency movements			*-7.1%*
Consolidation and other changes			*-0.6%*
Sales	**1,690**	**1,501**	**-11.2%**
Adjusted gross margin	670	580	-13.5%
Adj. gross margin (as % of sales)	**39.7%**	**38.6%**	
Adj. SG&A expenses	-483	-417	
Adj. R&D expenses	-88	-81	
Adj. indirect costs	-570	-498	12.8%
Adj. indirect costs (as % of sales)	**33.8%**	**33.2%**	
Adjusted EBITA	127	106	-16.8%
Adjusted EBITA margin (%)	**7.5%**	**7.0%**	
Adjusted items	-4	-43	
EBITA	122	62	-48.9%
Income from operations (EBIT)	**94**	**39**	**-58.2%**
Net financial income/expense	-11	-9	
Income tax expense	-23	-10	
Net income	**61**	**20**	**-67.0%**
Free cash flow	**2**	**-6**	
Basic EPS (€)	0.43	0.15	
Employees (FTE)	34,379	31,615	

First quarter

Sales amounted to EUR 1,501 million. Adjusted for -7.1% currency effects and -0.6% consolidation impact, comparable sales decreased by 3.5%. LED and Professional delivered positive comparable sales growth, which was more than offset by Lamps and Home. Total comparable LED-based sales grew by 5.6% and now represent 68% of total sales compared with 61% in the same quarter last year. The adjusted gross margin declined by 110 basis points to 38.6%, largely due to lower sales levels. Price erosion slowed down, and the impact was partly offset by ongoing procurement savings. Adjusted indirect costs decreased by EUR 72 million, or 60 basis points as a percentage of sales, as a result of rigorous implementation of cost reduction initiatives. Adjusted EBITA amounted to EUR 106 million, an Adjusted EBITA margin of 7.0% compared with 7.5% last year. Restructuring and incidental items amounted to EUR 43 million. Restructuring costs were EUR 39 million and incidental items were EUR 4 million. Net income was EUR 20 million compared with EUR 61 million last year, mainly due to lower operational profitability (EUR -21 million), higher restructuring costs (EUR -29 million) and a real estate gain in Q1 2017 (EUR 15 million). Free cash flow amounted to EUR -6 million compared with EUR 2 million in the same period last year. In 2017, free cash flow was positively impacted by the proceeds from the sale of real estate of EUR 19 million.

Business highlights for the first quarter

- **Philips Lighting** announced its intention to change its company name to Signify. The company will continue to use the Philips brand for its products under the existing licensing agreement with Royal Philips.
- **Philips Lighting** was included in Euronext's AEX Index on March 19, 2018. The AEX Index is a free-float adjusted market capitalization index that reflects the performance of the 25 largest shares listed on Euronext Amsterdam and is the most important indicator of the Dutch stock market.
- **LED:** Philips Lighting introduced the Philips Trueforce LED Road and the Philips CorePro LEDtube Universal T8, supporting our continuous innovation in LED products. The Trueforce LED Road is the first of its kind to fit into the standard E27 fixture and reduces the time needed to maintain, replace and fit each street light. With the addition of the CorePro LEDtube Universal T8 for trade customers, Philips Lighting offers the broadest range of LED tubes for different applications in the industry.
- **Professional:** Continuing our leadership in Systems and Services, we launched Interact, our new Internet of Things platform. Interact is designed to collect, process and analyze large volumes of data from the growing number of connected light points, sensors, devices and systems. The IoT platform can create data-enabled services for customers that deliver benefits beyond illumination. Philips Lighting also introduced connected lighting systems under the Interact name. These systems can generate and upload data to the Interact IoT platform.
- **Professional:** Exemplifying the company's innovation leadership, Philips Lighting is the first major global lighting company to LiFi-enable luminaires from its existing office lighting portfolio. LiFi is a two-way, high-speed wireless technology similar to WiFi, but uses light waves instead of radio waves to transmit data in a highly secure way. This means LiFi can be used in places where radio frequencies may interfere with equipment, such as in hospitals.
- **Professional:** Philips Lighting launched a new range of solar-powered products and systems, including the Philips LifeLight solar lantern, which comes with a replaceable battery that extends the product's life far beyond its two years warranty, and the Philips SunStay, an innovative all-in-one solar street light that is compact and easy to install and maintain.
- **Professional:** Together with American Tower Corporation, we announced that we will provide the City of Huntington Beach, CA with our newly developed Smart Fusion Pole. These poles provide the city infrastructure with wireless broadband connectivity in an aesthetically designed, energy-efficient street light pole.
- **Home:** Philips Hue further strengthened its leadership position by announcing the launch of a Hue product line for outdoor in Europe and the United States this summer. The company also announced new 'Friends of Hue' luminaire partners in the United States and Europe, with the latter offering consumers Hue-compatible wall switches in a variety of designs, turning traditional light switches into smart controls. Finally, a fully redesigned app for Hue (app 3.0), will launch in Spring 2018.

Operational performance by business group

Lamps

in € million, unless otherwise indicated	First quarter 2017	2018	change
Comparable sales growth (%)			-17.6%
Sales	490	370	-24.4%
Adjusted EBITA	100	78	-21.4%
Adjusted EBITA margin (%)	20.4%	21.2%	
EBITA	108	62	
Income from operations (EBIT)	108	62	

First quarter

Sales amounted to EUR 370 million, a comparable decline of 17.6% which is estimated to be lower than the market decline, resulting in continued market share gains. Ongoing procurement savings, productivity and lower indirect costs further improved the Adjusted EBITA margin by 80 basis points to 21.2%. Adjusted EBITA amounted to EUR 78 million.

LED

in € million, unless otherwise indicated	First quarter 2017	2018	change
Comparable sales growth (%)			3.6%
Sales	468	444	-5.1%
Adjusted EBITA	40	43	6.8%
Adjusted EBITA margin (%)	8.5%	9.6%	
EBITA	43	42	
Income from operations (EBIT)	42	41	

First quarter

Sales amounted to EUR 444 million, a comparable increase of 3.6% on the back of a high comparison base. Growth in LED lamps remained robust, with volume gradually converging to market growth while price erosion is reducing. LED electronics sales were flat due to lower demand by OEMs, particularly from Tier 1 customers. Adjusted EBITA increased to EUR 43 million. The Adjusted EBITA margin improved by 110 basis points to 9.6% due to lower price erosion, mix improvement and lower indirect costs.

Professional

in € million, unless otherwise indicated	First quarter 2017	2018	change
Comparable sales growth (%)			3.2%
Sales	621	593	-4.5%
Adjusted EBITA	13	31	141.8%
Adjusted EBITA margin (%)	2.1%	5.2%	
EBITA	11	28	
Income from operations (EBIT)	-15	7	

First quarter

Sales amounted to EUR 593 million, an increase of 3.2% on a comparable basis. The performance in Europe and the Rest of the World continued to be solid. The market for small- to medium-sized projects remained difficult in the United States. Market conditions in Saudi Arabia continued to be challenging, negatively impacting comparable sales growth by 220 basis points. Adjusted EBITA more than doubled and amounted to EUR 31 million. This resulted in an improvement of the Adjusted EBITA margin of 310 basis points to 5.2%, mainly driven by operational leverage, manufacturing footprint rationalization and lower indirect costs.

Home

	First quarter		
in € million, unless otherwise indicated	2017	2018	change
Comparable sales growth (%)			-6.4%
Sales	106	92	-13.3%
Adjusted EBITA	1	-21	
Adjusted EBITA margin (%)	0.5%	-23.1%	
EBITA	-1	-22	
Income from operations (EBIT)	-2	-22	

First quarter

Sales amounted to EUR 92 million, a decrease of 6.4% on a comparable basis due to lower than expected sales at our trade partners in the fourth quarter, most notably in the United States. This resulted in lower sales in the first quarter to allow for inventory reductions at our trade partners. Adjusted EBITA amounted to EUR -21 million. The Adjusted EBITA margin of -23.1% was mainly the result of lower fixed cost absorption and investments in growth since the first quarter of 2017. As a consequence, we are undertaking a set of actions to improve performance over the coming quarters.

Other

First quarter

Adjusted EBITA amounted to EUR -25 million in the quarter (Q1 2017: EUR -26 million). It represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions. EBITA amounted to EUR -47 million (Q1 2017: EUR -37 million), including restructuring costs of EUR 18 million (Q1 2017: EUR 1 million). Other incidental items not part of the Adjusted EBITA included EUR 4 million of costs related to the separation and the company name change (Q1 2017: EUR 9 million).

Sales by market

in € million, except percentages	First quarter 2017	2018	change	CSG*
Europe**	564	557	-1.3%	-0.6%
Americas	534	417	-22.0%	-9.8%
Rest of the World	490	433	-11.5%	-0.7%
Global businesses	103	95	-7.8%	-1.6%
Total	**1,690**	**1,501**	**-11.2%**	**-3.5%**

** CSG: Comparable Sales Growth*
***Russia & Central Asia is now included in Market Group Europe (was previously part of Rest of the World)*

First quarter

Comparable sales in Europe decreased by 0.6% with a solid performance in the Benelux, Eastern Europe and the Nordics offset by a weak performance in the UK & Ireland. In the Americas, comparable sales declined by 9.8%, mainly due to the continued decline in Lamps and weak sell-in levels in Home. Comparable sales for the Rest of the World decreased by 0.7%, with a solid performance in markets like India and Greater China, offset by continued challenging market conditions in Saudi Arabia.

Financial condition

Working capital

in € million, unless otherwise indicated	31 Mar '17	31 Dec '17	31 Mar '18
Inventories	982	924	957
Receivables	1,472	1,373	1,235
Accounts and notes payable	-1,034	-1,001	-949
Accrued liabilities	-450	-475	-413
Other*	-253	-224	-218
Working capital	**717**	**597**	**612**
As % of LTM** sales	10.1%	8.6%	9.0%

**Working capital definition has been updated and no longer includes income tax receivable and income tax payable*
*** LTM: Last Twelve Months*

First quarter

Working capital improved year-on-year by EUR 105 million to EUR 612 million. Working capital represents 9.0% of sales, compared with 10.1% at the end of March 2017, mainly driven by lower receivables and inventory levels.

Cash flow analysis

in € million	First quarter 2017	2018
Income from operations (EBIT)	94	39
Depreciation and amortization	66	58
Additions to (releases of) provisions	31	54
Utilizations of provisions	-66	-59
Change in working capital	-49	-41
Interest paid	-3	-5
Income taxes paid	-28	-35
Net capex	-1	-21
Other	-43	3
Free cash flow	**2**	**-6**

First quarter

Free cash flow amounted to EUR -6 million compared with EUR 2 million in the same period last year. Excluding the proceeds of a real estate sale of EUR 19 million in Q1 2017, free cash flow improved compared with the same period last year. Free cash flow in Q1 2018 included a restructuring pay-out of EUR 31 million (Q1 2017: EUR 29 million) and a charge of EUR 4 million related to separation and company name change costs (Q1 2017: EUR 6 million).

Net debt

in € million	31 Mar '17	31 Dec '17	31 Mar '18
Short-term debt	146	140	111
Long-term debt	1,214	1,170	1,157
Gross debt	1,360	1,309	1,267
Short-term loans receivable from Royal Philips	9	-	-
Cash and cash equivalents	935	942	833
Net debt	**416**	**367**	**435**
Total equity	**2,746**	**2,321**	**2,202**

First quarter

Net debt amounted to EUR 435 million, an increase of EUR 68 million compared with the end of 2017. Total equity reduced to EUR 2,202 million at the end of the first quarter (YE 2017: EUR 2,321 million), primarily due to currency translation results and the share repurchase in February, partly offset by net income.

Other information

Appendix A – Financial Statement Information
Appendix B – Reconciliation of non-IFRS Financial Measures
Appendix C – Financial Glossary

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Financial calendar 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 first quarter results. A live audio webcast of the conference call will be available via the Philips Lighting Investor Relations website.

For further information, please contact:

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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 2017 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 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 18 Reconciliation of non-IFRS measures" in the Annual Report 2017.

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 2017.

Changes to financial reporting following organizational changes to further align the organizational structure with the strategy

As the market trend of both professionals and consumers switching from buying lamps and luminaires to integrated LED luminaires is accelerating, the company has decided to modify the current portfolios of its business groups. As of January 1, 2018, Philips Lighting has implemented the following changes to the following portfolios:

- Consumer and professional trade downlights, the recessed spots portfolio and the LED Light strips moved from Home and Professional to LED;
- Consumer LED functional ceiling products moved from Home to LED;
- LED battens moved from Home to Professional; and
- Consumer and professional trade LED panels moved from Home and LED to Professional.

- Next to this, the financial performance of the Ventures activities is reported in Other instead of in Professional and in Home, as these activities are managed outside of the aforementioned business groups. In addition, the switches business within Lamps has been moved to LED.

Therefore, with effect from the first quarter of 2018, Philips Lighting reports and discusses its financial performance based on the above portfolio changes. In March 2018, the company provided an update to show the effect of changes to the business portfolio as well as changes to the allocation methods of centrally-managed costs and expenses and threshold for other incidental items as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA.

In addition, the cash flow presentation has been amended to better correspond to the balance sheet and to further improve transparency on cash flow movements. As of the first quarter of 2018, Philips Lighting will provide cash flow statements per quarter.

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

	Q1	
	2017	**2018**
Sales	1,690	1,501
Cost of sales	(1,023)	(936)
Gross margin	**667**	**565**
Selling, general and administrative expenses	(497)	(430)
Research and development expenses	(89)	(95)
Impairment of goodwill	-	-
Other business income	16	2
Other business expenses	(3)	(2)
Income from operations	**94**	**39**
Financial income	2	4
Financial expenses	(13)	(13)
Results relating to investments in associates	1	-
Income before taxes	**84**	**30**
Income tax expense	(23)	(10)
Net income	**61**	**20**
Attribution of net income for the period:		
Net income (loss) attributable to shareholders of Philips Lighting N.V.	64	21
Net income (loss) attributable to non-controlling interests	(3)	(1)

Amounts may not add up due to rounding

B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR

	Q1	
	2017	**2018**
Net income for the period	**61**	**20**
Pensions and other post-employment plans:		
Remeasurements	1	(3)
Income tax effect on remeasurements	-	-
Total of items that will not be reclassified to profit or loss	**1**	**(3)**
Currency translation differences:		
Net current period change, before tax	(37)	(64)
Income tax effect	-	-
Cash flow hedges:		
Net current period change, before tax	(7)	10
Income tax effect	-	(2)
Total of items that are or may be reclassified to profit or loss	**(44)**	**(56)**
Other comprehensive income (loss)	**(43)**	**(59)**
Total comprehensive income (loss)	**18**	**(39)**
Total comprehensive income (loss) attributable to:		
Shareholders of Philips Lighting N.V.	23	(36)
Non-controlling interests	(5)	(3)

Amounts may not add up due to rounding

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C. CONDENSED CONSOLIDATED BALANCE SHEETS

In millions of EUR	December 31, 2017	March 31, 2018
Non-current assets		
Property, plant and equipment	492	470
Goodwill	1,694	1,649
Intangible assets, excluding goodwill	562	527
Non-current receivables	49	48
Investments in associates	21	21
Other non-current financial assets	12	14
Deferred tax assets	440	454
Other non-current assets	35	34
Total non-current assets	**3,306**	**3,218**
Current assets		
Inventories	924	957
Other current assets	77	106
Derivative financial assets	16	17
Income tax receivable	39	36
Receivables	1,373	1,235
Assets classified as held for sale	1	3
Cash and cash equivalents	942	833
Total current assets	**3,372**	**3,187**
Total assets	**6,678**	**6,405**
Equity		
Shareholders' equity	2,242	2,129
Non-controlling interests	79	73
Total equity	**2,321**	**2,202**
Non-current liabilities		
Long-term debt	1,170	1,157
Long-term provisions	777	773
Deferred tax liabilities	27	22
Other non-current liabilities	167	170
Total non-current liabilities	**2,140**	**2,122**
Current liabilities		
Short-term debt	140	111
Derivative financial liabilities	8	8
Income tax payable	79	71
Account and notes payable	1,001	949
Accrued liabilities	475	413
Short-term provisions	204	195
Liabilities directly associated with assets classified held for sale	-	-
Other current liabilities	309	334
Total current liabilities	**2,216**	**2,081**
Total liabilities and total equity	**6,678**	**6,405**

Amounts may not add up due to rounding

D. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of EUR	January to March	
	2017	2018
Cash flows from operating activities		
Net income	61	20
Adjustments to reconcile net income to net cash provided by operating activities:	101	132
• Depreciation, amortization and impairment of non-financial assets	66	58
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	(2)	-
• Net gain on sale of assets	(15)	(1)
• Interest income	(2)	(3)
• Interest expense on debt, borrowings and other liabilities	5	8
• Income tax expense	23	10
• Additions to (releases of) provisions	31	54
• Other items	(5)	5
Decrease (increase) in working capital:	(49)	(41)
• Decrease (increase) in receivables	126	98
• Decrease (increase) in inventories	(101)	(54)
• Increase (decrease) in accounts payable	18	(37)
• Increase (decrease) in other current assets, accrued and other current liabilities	(92)	(48)
Increase (decrease) in non-current receivables, other assets and other liabilities	(14)	3
Utilization of provisions	(66)	(59)
Interest paid	(3)	(5)
Income taxes paid	(28)	(35)
Net cash provided by (used for) operating activities	**3**	**16**
Cash flows from investing activities		
Net capital expenditures:	(1)	(21)
• Additions of intangible assets	(5)	(7)
• Capital expenditures on property, plant and equipment	(15)	(15)
• Proceeds from disposal of property, plant and equipment	19	-
Net proceeds from (cash used for) derivatives and current financial assets	2	15
Proceeds from other non-current financial assets	-	1
Purchases of other non-current financial assets	-	(3)
Purchases of businesses, net of cash acquired	(1)	-
Proceeds from sale of interests in businesses, net of cash disposed of	(2)	-
Net cash used for investing activities	**(3)**	**(9)**
Cash flows from financing activities		
Funding by (distribution to) Royal Philips	(12)	-
Dividends paid	-	-
Proceeds from issuance (payments) of debt	(8)	(17)
Purchases of treasury shares	(82)	(71)
Net cash provided by (used for) financing activities	**(101)**	**(88)**
Net cash provided by (used for) operations	**(101)**	**(81)**
Effect of changes in exchange rates on cash & cash eq. and bank overdrafts	(4)	(20)
Cash and cash equivalents and bank overdrafts at the beginning of the period [1)]	1,040	925
Cash and cash equivalents and bank overdrafts at the end of the period [1)]	**935**	**825**

[1)] For the first quarter of 2018, this included EUR 833 million and EUR 942 million of cash and cash equivalents, and EUR -8 million and EUR -17 million of bank overdrafts, at the end and the beginning of the period, respectively. For the first quarter of 2017, there were no bank overdrafts.

Amounts may not add up due to rounding

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Appendix B – Reconciliation of non-IFRS Financial Measures

Sales growth composition

	First quarter			
	comparable growth	currency effects	consolidation and other changes	nominal growth
2018 vs 2017				
Lamps	-17.6	-6.5	-0.3	-24.4
LED	3.6	-8.1	-0.6	-5.1
Professional	3.2	-7.1	-0.6	-4.5
Home	-6.4	-4.6	-2.2	-13.3
Other	-71.5	-1.8	-	-73.3
Total	**-3.5**	**-7.1**	**-0.6**	**-11.2**

	First quarter			
	comparable growth	currency effects	consolidation and other changes	nominal growth
2018 vs 2017				
Europe	-0.6	-0.6	-	-1.3
Americas	-9.8	-11.8	-0.3	-22.0
Rest of the World	-0.7	-9.5	-1.3	-11.5
Global businesses	-1.6	-4.0	-2.2	-7.8
Total	**-3.5**	**-7.1**	**-0.6**	**-11.2**

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
January to March 2018						
Adjusted EBITA	106	78	43	31	(21)	(25)
Restructuring	(39)	(17)	(1)	(3)	(1)	(18)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(4)	-	-	-	-	(4)
EBITA	**62**	**62**	**42**	**28**	**(22)**	**(47)**
Amortization	(23)	-	(1)	(21)	-	-
Income from operations (or EBIT)	**39**	**62**	**41**	**7**	**(22)**	**(47)**
January to March 2017						
Adjusted EBITA	127	100	40	13	1	(26)
Restructuring	(10)	(3)	-	(4)	(2)	(1)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	6	10	3	2	-	(10)
EBITA	**122**	**108**	**43**	**11**	**(1)**	**(37)**
Amortization	(28)	-	(1)	(26)	(1)	(1)
Income from operations (or EBIT)	**94**	**108**	**42**	**(15)**	**(2)**	**(38)**

Amounts may not add up due to rounding

Income from operations to Adjusted EBITA in millions of EUR

In millions of EUR

January to March 2018	Reported	Restructuring	Acquisition related charges	Incidental items	Adjusted
Sales	1,501	-	-	-	1,501
Cost of sales	(936)	15	-	-	(921)
Gross margin	**565**	**15**	**-**	**-**	**580**
Selling, general and administrative expenses	(430)	10	-	4	(417)
Research and development expenses	(95)	15	-	-	(81)
Indirect costs	**(526)**	**24**	**-**	**4**	**(498)**
Impairment of goodwill	-	-	-	-	-
Other business income	2	-	-	-	2
Other business expenses	(2)	-	-	-	(2)
Income from operations	**39**	**39**	**-**	**4**	**82**
Amortization	(23)	-	-	-	(23)
Income from operations excluding amortization (EBITA)	**62**	**39**	**-**	**4**	**106**

January to March 2017	Reported	Restructuring	Acquisition related charges	Incidental items	Adjusted
Sales	1,690	-	-	-	1,690
Cost of sales	(1,023)	3	-	-	(1,019)
Gross margin	**667**	**3**	**-**	**-**	**670**
Selling, general and administrative expenses	(497)	6	-	9	(483)
Research and development expenses	(89)	1	-	-	(88)
Indirect costs	**(586)**	**7**	**-**	**9**	**(570)**
Impairment of goodwill	-	-	-	-	-
Other business income	16	-	-	(14)	2
Other business expenses	(3)	-	-	-	(3)
Income from operations	**94**	**10**	**-**	**(6)**	**99**
Amortization	(28)	-	-	-	(28)
Income from operations excluding amortization (EBITA)	**122**	**10**	**-**	**(6)**	**127**

Amounts may not add up due to rounding

Appendix C – Financial glossary

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

Incidental charges	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
Net debt	Short-term debt, long-term debt minus cash and cash equivalents
R&D expenses	Research and development expenses
Restructuring costs	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
SG&A expenses	Selling, General and Administrative expenses
Working capital	The sum of Inventories, Receivables, Other current assets, Derivative financial assets, minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, and Other current liabilities.