PHILIPS Lighting

Press release January 23, 2017

Philips Lighting reports full year operating profit margin increase of 180 basis points to 9.1% and free cash flow of EUR 418 million

Full year 2016 highlights

- Sales of EUR 7,115 million, with comparable sales of -2.4% (2015: -3.5%)
- Continued year-on-year improvement in operational profitability
  - Adjusted EBITA of EUR 645 million (2015: EUR 547 million)
  - Adjusted EBITA margin improvement of 180 basis points to 9.1% (2015: 7.3%)
- Net income of EUR 185 million (2015: EUR 240 million), including EUR 143 million charges not applicable in 2015 for brand license, separation costs and financial expenses
- Free cash flow of EUR 418 million (2015: EUR 632 million) or 5.9% of sales

Fourth quarter 2016 highlights

- Sales amounted to EUR 1,934 million, with comparable sales of -3.2% (Q4 2015: -2.7%)
- Total LED-based sales growth of 16%, now representing 59% of total sales
- Continued year-on-year improvement in operational profitability
  - Adjusted EBITA of EUR 188 million (Q4 2015: EUR 159 million)
  - Adjusted EBITA margin improvement of 190 basis points to 9.7% (Q4 2015: 7.8%)
- Net income of EUR 63 million, including EUR 41 million charges not applicable in 2015 for brand license, separation costs and financial expenses
- Free cash flow of EUR 272 million

Shareholder return

- Proposed cash dividend of EUR 1,10 per share, a pay-out ratio of 52%
- Additional capital up to EUR 300 million to be returned to shareholders over the period 2017-2018 by participating in share disposals by our main shareholder.

Eindhoven, the Netherlands – Philips Lighting (Euronext Amsterdam: LIGHT) today announced the company's fourth quarter and full year results 2016. "In 2016, our businesses performed in accordance with their strategic objectives, despite challenging conditions in some markets. We are pleased with the significant increase in profitability and solid free cash flow in our first year as a standalone company. These results mark a continued progression to achieve our strategic goals and medium term financial objectives," said CEO Eric Rondolat. "Our team remains focused on the opportunities ahead and is committed to meeting the needs of our customers through innovation, while executing concrete actions to continue improving our growth profile."

Key figures

Fourth quarter				Twelve months		
2015	2016	Change	*in € million, unless otherwise indicated*	2015	2016	change
2,045	1,934	-5.4%	Sales	7,465	7,115	-4.7%
		-3.2%	*Comparable sales growth*			*-2.4%*
753	744	-1.2%	Adjusted gross margin	2,731	2,763	1.2%
159	188	18.2%	Adjusted EBITA	547	645	17.9%
105	136	29.5%	EBITA	438	479	9.4%
79	109	38.0%	Income from operations (EBIT)	331	369	11.5%
42	63	50.0%	Net income	240	185	-22.9%
			% of sales			
36.8%	38.5%		Adjusted gross margin	36.6%	38.8%	
7.8%	9.7%		Adjusted EBITA margin	7.3%	9.1%	
478	272		Free cash flow	632	418	
	0.43		Basic EPS (€)		1.26	
37,399	34,256		Employees (FTE)	37,399	34,256	

PHILIPS Lighting

Outlook

In 2017, we expect further improvement in our Adjusted EBITA margin by approximately 50-100 basis points, in line with our medium term outlook to gradually improve the Adjusted EBITA margin to 11-13%. We also remain committed to delivering solid free cash flow. While we are cautious given global economic uncertainty, we remain committed to our ambition to return to positive comparable sales growth in the course of this year.

2016 dividend proposal and capital return to shareholders

We propose a dividend of EUR 1.10 per share in cash, which represents a pay-out ratio of 52% of continuing net income. The dividend payment is subject to approval by the Annual General Meeting of Shareholders (AGM) to be held on 9 May 2017. Further details will be given in the agenda for the AGM.

Given our capital position whilst maintaining a compatible investment-grade profile, and in line with our capital allocation policy, we will return additional capital to our shareholders. Over the period 2017-2018, we will return up to EUR 300 million, by participating in share disposals by our main shareholder.

Financial review

Fourth quarter				Twelve months		
2015	2016	change	*in € million, except percentages*	2015	2016	change
2,045	**1,934**	**-5.4%**	**Sales**	**7,465**	**7,115**	**-4.7%**
		-3.2%	*Comparable sales growth*			*-2.4%*
		-1.4%	*Effects of currency movements*			*-2.0%*
753	**744**	**-1.2%**	**Adjusted gross margin**	**2,731**	**2,763**	**1.2%**
-535	-507		Adjusted SG&A expenses	-1,952	-1,917	
-95	-86		Adjusted R&D expenses	-365	-340	
-630	**-593**	**5.9%**	**Adjusted indirect costs**	**-2,317**	**-2,257**	**2.6%**
159	**188**	**18.2%**	**Adjusted EBITA**	**547**	**645**	**17.9%**
-54	-52		Adjusted items	-109	-166	
105	136	29.5%	EBITA	438	479	9.4%
79	**109**	**38.0%**	**Income from operations (EBIT)**	**331**	**369**	**11.5%**
-4	-12		Net financial income/expense	-8	-67	
-33	-35		Income tax expense	-83	-119	
42	**63**	**50.0%**	**Net income**	**240**	**185**	**-22.9%**
36.8%	38.5%		Adjusted gross margin (%)	36.6%	38.8%	
30.8%	30.7%		Adjusted indirect costs (%)	31.0%	31.7%	
7.8%	9.7%		Adjusted EBITA margin (%)	7.3%	9.1%	

Fourth quarter

Overall fourth quarter results showed continued steady progress. Sales amounted to EUR 1,934 million, a decline of 3.2% on a comparable basis. The decrease was mainly due to Lamps and remaining macro-economic challenges in some markets. We saw sustained sales growth in LED and Home and stable sales in Professional.

Adjusted gross margin amounted to EUR 744 million. As a percentage of sales, adjusted gross margin improved by 170 basis points to 38.5%, largely driven by procurement savings and increased productivity, partly offset by price erosion. Adjusted indirect costs decreased by EUR 37 million, to EUR 593 million, driven by our cost

reduction program, despite a EUR 10 million charge for the brand license fee. Adjusted EBITA increased to EUR 188 million, resulting in a 190 basis point improvement of Adjusted EBITA margin at 9.7%.
Restructuring and incidental items amounted to EUR 52 million. Restructuring costs were EUR 25 million, while incidental items included a charge of EUR 25 million in separation costs.
Net income of EUR 63 million included EUR 41 million in charges which were not applicable in 2015 for the brand license fee, separation costs and financial expenses. Financial expenses were related to the financing structure of the company following its separation from Royal Philips.

Business highlights for the fourth quarter

- **LED:** Philips Lighting and the Dubai Municipality introduced the Dubai Lamp, the world's most energy efficient commercially available LED lamp, part of our continued innovation in LED products commercially and technologically, to help us outgrow the market. By replacing conventional lamps with the Dubai Lamp, electricity used for lighting can be reduced by up to 90 percent. The Dubai Lamp has an average lifespan of up to 15 times longer than conventional lamps.
- **Professional/Architectural:** Philips Power-over-Ethernet (PoE) technology for connected, sustainable lighting made skyscraper Torre Europa the smartest office building in Madrid, helping us to capture adjacent value through new Services business models. PoE brings together Philips Lighting's connected lighting systems with Cisco's IT networks, allowing office workers to personalize their office environment, while building managers can optimize space utilization and building efficiency.
- **Professional/Infrastructure:** Philips Lighting completed the installation of nearly 90,000 connected street lights in Jakarta, demonstrating our ability to continue leading the shift to Systems, building the largest connected installed base. The Jakarta network, managed by using the Philips CityTouch street lighting system, is one of the world's largest connected street lighting systems. CityTouch has been installed in over 700 projects across 35 countries since its inception in 2012.
- **Professional/Arena:** VfL Wolfsburg was the first German football club to adopt connected LED pitch lighting from Philips Lighting for its stadium, the Volkswagen Arena, in Wolfsburg, Germany, highlighting the continued leverage of our global scale to serve our customers locally. The pitch lighting and moving spotlights can also sync with the stadium's video screens and perimeter message displays, creating spectacular light effects that significantly enhance stadium entertainment.
- **Home**: Philips Hue connected lighting system was a debut partner with Google's new voice activated speaker, Google Home, making it the first connected lighting system that can be used with all leading smart home platforms, also contributing to creating the largest connected installed base.
- **Home:** Philips Hue and "The Voice of Germany" worked together to extend the light effects of battle rounds and live shows, introducing an app that allows viewers with a Philips Hue system and colorable lamps to bring the effects of the show into their homes. This supports our strategy to focus on consumer experience, leveraging our strengths in connected lighting systems for the home. It is the second country where cooperation was established with "The Voice", after Philips Lighting's home market in the Netherlands.

Full year
We delivered a solid financial performance in our first year as a standalone company. Sales amounted to EUR 7,115 million, a decline of 2.4% on a comparable basis, showing an improved trend compared to 2015, despite challenging macro-economic conditions in some markets.
Adjusted gross margin increased to EUR 2,763 million, driven by footprint rationalization, operational leverage and procurement savings, partly offset by price reductions. Adjusted indirect costs decreased by EUR 60 million, to EUR 2,257 million, driven by cost reduction programs, despite an additional charge of EUR 36 million for the brand license fee. Adjusted EBITA reached EUR 645 million and adjusted EBITA margin increased by 180 basis

points, to 9.1%, in line with our medium term path of gradual improvement, with each business group contributing to the increase.

Restructuring and incidental items amounted to EUR 166 million. Restructuring costs were EUR 115 million, while incidental items included a charge of EUR 62 million in separation costs. As a percentage of sales restructuring costs were 1.6%. Restructuring charges for 2017 are expected to remain in line with our medium term outlook of 1.5-2.0% of sales per year.

Net income of EUR 185 million included EUR 143 million in charges which were not applicable in 2015 for the brand license fee, separation costs and financial expenses. Financial expenses were related to the new financing structure of the company following its separation from Royal Philips. Income tax expense increased mainly due to non-recurring tax charges related to the separation, recognized in the first half year of 2016.

Operational performance by business group

Lamps

Fourth quarter				Twelve months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
725	576	-20.6%	Sales	2,850	2,333	-18.1%
		-18.5%	*Comparable sales growth (%)*			*-15.8%*
107	110	2.8%	Adjusted EBITA	463	472	1.9%
14.8%	19.1%		*Adjusted EBITA margin (%)*	16.2%	20.2%	
85	93	9.4%	EBITA	405	435	7.4%

Fourth quarter

Sales amounted to EUR 576 million, a decline of 18.5% on a comparable basis. All regions experienced a decline in sales. Adjusted EBITA increased to EUR 110 million, mainly driven by manufacturing footprint rationalization, procurement and productivity savings. Adjusted EBITA margin improved by 430 basis points to 19.1%. Restructuring costs amounted to EUR 17 million, primarily related to ongoing rationalization of our manufacturing footprint. Active management of our business portfolio led to the successful divestment of the cinema business in North America.

Full year

Sales amounted to EUR 2,333 million, a decline of 15.8% on a comparable basis, due to the transition from conventional to LED lighting. Adjusted EBITA increased to EUR 472 million. Adjusted EBITA margin improved by 400 basis points to 20.2%, mainly driven by a lower than anticipated sales decline combined with efficient manufacturing footprint rationalization, productivity and procurement savings. Restructuring costs amounted to EUR 37 million, mainly related to ongoing rationalization of our manufacturing footprint.

As part of the business strategy, active management of our business portfolio led to three successful divestments during the year.

This performance reflects the successful implementation of our “last man standing” strategy to continue to extract value from the conventional business, supporting our medium term guidance to maintain our Adjusted EBITA margin at least at the level of 2015.

LED

Fourth quarter				Twelve months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
400	440	9.9%	Sales	1,334	1,518	13.8%
		11.3%	*Comparable sales growth (%)*			*16.1%*
35	53	51.4%	Adjusted EBITA	74	142	91.9%
8.8%	12.0%		*Adjusted EBITA margin (%)*	5.5%	9.4%	
33	52	57.6%	EBITA	70	140	100.0%

Fourth quarter
Sales were EUR 440 million, resulting in comparable sales growth of 11.3%. Volume growth was robust, while sales grew less rapidly due to price erosion and mix impact. The comparable sales trend in the Americas continued to be soft in the fourth quarter. Accordingly, we have taken measures, including expanding and diversifying our distribution coverage, intensifying our pull marketing activities and increasing our market based product innovation.
Adjusted EBITA increased to EUR 53 million, driven by procurement savings and operational leverage, off-setting price reductions. This led to a significant increase of adjusted EBITA margin by 320 basis points to 12.0%.

Full year
Sales amounted to EUR 1,518 million, resulting in comparable sales growth of 16.1% due to robust volume growth, while sales grew less rapidly due to price erosion and mix impact. Comparable sales trends in the Americas started softening in the second quarter. Some countries in Europe showed slower sales growth due to high LED penetration rates. The Rest of the World continued to deliver robust growth.
Adjusted EBITA increased to EUR 142 million, driven by continued operational leverage, material procurement savings and innovation. The Adjusted EBITA margin showed a significant increase of 390 basis points to 9.4%.

This performance illustrates the benefit of our strategy focused on innovation and operational leverage, demonstrating we are on track for a gradual improvement of our Adjusted EBITA margin to 10-12% in the medium term.

Professional

Fourth quarter				Twelve months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
752	734	-2.3%	Sales	2,757	2,683	-2.7%
		0.1%	*Comparable sales growth (%)*			*-0.5%*
50	51	2.0%	Adjusted EBITA	150	145	-3.3%
6.6%	6.9%		*Adjusted EBITA margin (%)*	5.4%	5.4%	
28	46	64.3%	EBITA	114	93	-18.4%

Fourth quarter
Sales amounted to EUR 734 million and remained stable on a comparable basis, despite continued difficult market conditions in Saudi Arabia. Europe showed growth, while on a comparable basis the Americas was stable.
Adjusted EBITA amounted to EUR 51 million. Procurement savings, production efficiency improvements and mix improvement were partly offset by write-downs on bad debt in Saudi Arabia. The Adjusted EBITA margin increased by 30 basis points to 6.9%. Restructuring charges amounted to EUR 4 million, mainly related to a simplification of business structures, reduction of indirect costs and footprint rationalization.

Full year
Sales were EUR 2,683 million and showed a 0.5 % decline on a comparable basis. Worsened market conditions in Saudi Arabia had a EUR 107 million negative impact and a 410 basis points negative contribution on comparable sales growth. Sales in Europe were affected by softness in some markets, while the Americas showed growth and other geographies posted robust growth. The Systems & Services business continued to grow rapidly, with comparable sales increasing by 51%.
Adjusted EBITA amounted to EUR 145 million. The benefits from operational optimization and mix improvement with a further increase of our LED share were offset by lower sales and write-downs on bad debt in Saudi Arabia, which negatively impacted Adjusted EBITA by EUR 47 million. Adjusted EBITA margin remained stable at 5.4%. Restructuring charges amounted to EUR 49 million, mainly related to a simplification of business structures, reduction of indirect costs and footprint rationalization.

The group continues 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 ambition to increase the Adjusted EBITA margin to 11-14% in the medium term.

Home

Fourth quarter				Twelve months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
167	178	6.7%	Sales	515	559	8.7%
		8.8%	*Comparable sales growth (%)*			*11.0%*
-7	3	142.9%	Adjusted EBITA	-57	-20	64.9%
-4.2%	1.7%		*Adjusted EBITA margin (%)*	-11.1%	-3.6%	
-17	-1	94.1%	EBITA	-72	-46	36.1%

Fourth quarter
Sales in the fourth quarter increased to EUR 178 million as comparable sales grew by 8.8%, primarily supported by the Home Systems business. All markets contributed to growth.
Adjusted EBITA turned positive at EUR 3 million due to operational efficiency gains, procurement savings and operational leverage.

Full year
Sales increased to EUR 559 million, resulting in comparable sales growth of 11%, driven by growth in both Home Systems and Home Luminaires due to continued focus on innovation. Adjusted EBITA loss narrowed to EUR 20 million, resulting in an improvement of EUR 37 million compared to 2015. In the second half of the year, Adjusted EBITA became positive, showing the benefits of sales growth and restructuring efforts. Restructuring and incidental charges amounted to EUR 26 million, mainly related to footprint rationalization in Belgium and China.

This performance supports our strategy to focus on consumer experience, leveraging our strengths in connected lighting systems for the home. Home is on track to become profitable in 2017.

Other

Fourth quarter
Adjusted EBITA amounted to EUR -29 million in the quarter (Q4 2015: EUR -26 million) consisting primarily of group enabling function costs. Incidental items that were not part of Adjusted EBITA included a charge of EUR 25 million for separation costs.

Full year

Adjusted EBITA amounted to EUR -94 million for the full year (FY 2015: EUR -83 million). Incidental items that were not part of Adjusted EBITA included a charge of EUR 62 million for separation costs and a gain of EUR 14 million related to a release of provisions by Royal Philips, originating from the separation.

Sales by market

Fourth quarter					Twelve months			
2015	2016	Change	CSG*	*in € million, except percentages*	2015	2016	change	CSG*
652	633	-3.0%	-0.8%	Europe	2,290	2,208	-3.6%	-2.0%
629	581	-7.7%	-6.0%	Americas	2,352	2,245	-4.6%	-1.9%
626	600	-4.1%	-2.8%	Rest of the World	2,299	2,156	-6.2%	-3.2%
138	120	-12.7%	-4.2%	Global businesses	524	506	-3.3%	-2.2%
2,045	**1,934**	**-5.4%**	**-3.2%**	**Total**	**7,465**	**7,115**	**-4.7%**	**-2.4%**

* *CSG: Comparable Sales Growth*

Fourth quarter

Sales in **Europe** declined 0.8% on a comparable basis, with country-level variations. Sales in France and the United Kingdom were lower, while Benelux and the Nordics realized solid growth. In the **Americas**, sales declined 6.0% on a comparable basis, primarily due to conventional lighting, while comparable sales trend in LED continued to be soft. Sales on a comparable basis for the **Rest of the World** declined 2.8%, affected by continued macro-economic challenges in some markets, partly offset by growth in ASEAN & Pacific and Greater China.

Full year

The decline in overall sales for the year reflects the ongoing transformation from conventional to LED lighting in all markets. In 2016, we were affected by challenging macro-economic conditions in some markets. Total LED based sales saw a robust growth of 20%, which was offset by the decline in conventional lighting. The ongoing transformation from conventional to LED lighting is reflected in all markets globally. In 2016, we were affected by increased macro-economic uncertainty and volatility in some markets. Sales in **Europe** declined 2.0% on a comparable basis. In the **Americas**, sales declined 1.9% on a comparable basis, primarily due to conventional lighting, while comparable sales trend in LED started softening in the second quarter. Sales on a comparable basis for the **Rest of the World** declined 3.2%, mainly driven by Saudi Arabia, partly offset by growth in ASEAN & Pacific and improved growth trend in China.

Financial condition

Working capital

in € million, unless otherwise indicated	31 Dec '15	30 Sep '16	31 Dec '16
Inventories	988	999	886
Receivables	1,599	1,485	1,600
Accounts and notes payable	-1,051	-935	-1,024
Accrued liabilities	-459	-471	-502
Other	-245	-269	-298
Working capital	**832**	**809**	**662**
As % of LTM* sales	11.1%	11.2%	9.3%

* *LTM: Last Twelve Months*

Fourth quarter
In the fourth quarter working capital decreased by EUR 147 million to EUR 662 million, representing 9.3% of sales, mainly driven by reduced inventories.

Full year
Full year working capital performance confirmed the structural improvements achieved in 2016 in comparison to 2015. Working capital decreased by EUR 170 million to EUR 662 million, or 9.3% of sales. This improvement was mainly driven by an ongoing focus on inventories.

Cash flow analysis

Fourth quarter			Twelve months	
2015	2016	*in € million*	2015	2016
79	109	Income from operations (EBIT)	331	369
85	75	Depreciation and amortization	315	293
311	170	Change in working capital	209	119
5	-26	Net capex	-85	-87
3	-20	Change in provisions	-79	-71
-2	-8	Interest paid	-2	-29
-1	-23	Income taxes paid	-26	-96
-2	-5	Other	-31	-80
478	**272**	**Free cash flow**	**632**	**418**

Fourth quarter
Free cash flow of EUR 272 million was primarily attributable to improved profitability and robust working capital performance, partly offset by higher cash out flows following the separation, in particular interest payments and taxes. Free cash flow also includes separation costs of EUR 25 million.

Full year
Free cash flow of EUR 418 million was the result of improved profitability and strict working capital management, offset by higher cash out flows following the separation, in particular interest payments and taxes. Free cash flow for 2016 also includes separation costs of EUR 62 million.

Net debt

in € million	31 Dec '15	30 Sep '16	31 Dec '16
Short-term debt	86	151	155
Short-term loans payable to Royal Philips	-	-	2
Long-term debt	2	1,194	1,224
Gross debt	88	1,345	1,381
Short-term loans receivable from Royal Philips	-	30	0
Cash and cash equivalents	83	701	1,040
Net debt	**5**	**614**	**341**

Fourth quarter

The net debt amounted to EUR 341 million, a reduction of EUR 273 million, which was mainly driven by free cash flow. The cash position increased to EUR 1,040 million. Group equity increased to EUR 2,808 million at the end the fourth quarter (Q3 2016: EUR 2,583 million), primarily in connection with net income and currency translation adjustments. Group equity minus net debt amounted to EUR 2,467 million.

Full year

Following the separation from Royal Philips and the Initial Public Offering (IPO) in May 2016, the company raised USD 500 million and EUR 740 million through external debt facilities, replacing short-term funding from Royal Philips. Net debt at that time amounted to EUR 950 million.
At the end of the year, net debt amounted to EUR 341 million. The reduction of net debt since the IPO was mainly driven by the robust free cash flow. Group equity amounted to EUR 2,808 million at year end.

Other information

Appendix A – Financial statement information
Appendix B – Reconciliation of non-IFRS Financial Measures
Appendix C – Financial Glossary

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For the presentation click here

Conference call and audio webcast

Eric Rondolat (CEO) and Stéphane Rougeot (CFO) will host a conference call for investors and analysts at 9:00 a.m. CET to discuss full year and fourth quarter results.

For the audio webcast click here

Financial Calendar 2017

21 April 2017	First quarter results 2017
9 May 2017	Annual General Meeting of Shareholders
21 July 2017	Half year results 2017
19 October 2017	Third quarter results 2017

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About Philips Lighting

Philips Lighting (Euronext Amsterdam ticker: LIGHT), a global 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 2016 sales of EUR 7.1 billion, we have approximately 34,000 employees in over 70 countries. News from Philips Lighting is located at http://www.newsroom.lighting.philips.com

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" in the Group's prospectus, dated 16 May 2016 (the "**Prospectus**") 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 semi-annual report for the first six months ended 30 June 2016.

Additional 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, EBITDA, adjusted EBITDA 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 "Operating and Financial Review—Non-IFRS Financial Measures" in the Prospectus.

Presentation

All amounts are in millions of euros unless otherwise stated. All reported data is unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Combined Financial Statements for the year ended 31 December 2015 included in the Prospectus.

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	
	2015 unaudited	**2016 unaudited**	**2015 unaudited**	**2016 unaudited**
Sales	2,045	1,934	7,465	7,115
Cost of sales	(1,335)	(1,211)	(4,810)	(4,438)
Gross margin	**710**	**723**	**2,655**	**2,677**
Selling expenses	(477)	(468)	(1,751)	(1,750)
Research and development expenses	(96)	(87)	(366)	(353)
General and administrative expenses	(68)	(70)	(233)	(248)
Impairment of goodwill	1	-	-	(2)
Other business income	20	15	48	60
Other business expenses	(11)	(4)	(22)	(15)
Income from operations	**79**	**109**	**331**	**369**
Financial income	1	5	3	11
Financial expenses	(5)	(17)	(11)	(78)
Income before taxes	**75**	**97**	**323**	**302**
Income tax expense	(33)	(35)	(83)	(119)
Income after taxes	**42**	**62**	**240**	**183**
Results relating to investments in associates	-	1	-	2
Net income	**42**	**63**	**240**	**185**
Attribution of net income for the period:				
Net income attributable to shareholders of Philips Lighting	38	64	226	189
Net income attributable to non-controlling interests	4	(1)	14	(4)
Earnings per common share attributable to shareholders				
Weighted average number of common shares outstanding used for calculation (in thousands):				
- basic	-	150,000	-	150,000
- diluted	-	150,000	-	150,000
Net income attributable to shareholders per common share in EUR:				
- basic	-	0.43	-	1.26
- diluted	-	0.43	-	1.26

B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

	Q4		January to December	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
Net income for the period	**42**	**63**	**240**	**185**
Pensions and other post-employment plans:	-		-	
Remeasurements	-	(6)	-	(8)
Income tax effect on remeasurements	-	1	-	1
Total of items that are or may be reclassified to profit or loss		**(5)**	-	**(7)**
Currency translation differences:				
Net current period change, before tax	42	135	58	66
Income tax effect	-	-	-	-
Total currency translation differences:	42	135	58	66
Cash flow hedges:				
Net current period change, before tax	5	1	4	2
Income tax effect	(1)	-	(1)	-
Total cash flow hedges:	4	1	3	2
Other comprehensive (loss) income for the period	**46**	**131**	**61**	**61**
Total comprehensive income for the period	**88**	**194**	**301**	**246**
Total comprehensive income (loss) attributable to:				
Shareholders of Philips Lighting	83	189	278	247
Non-controlling interests	5	5	23	(1)

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C. CONDENSED CONSOLIDATED BALANCE SHEET

in millions of EUR unless otherwise stated

	31 December 2015	31 December 2016
Non-current assets		
Property, plant and equipment	634	566
Goodwill	1,844	1,899
Intangible assets, excluding goodwill	856	768
Non-current receivables	20	25
Investments in associates	23	26
Other non-current financial assets	8	11
Deferred tax assets	259	472
Other non-current assets	15	28
Total non-current assets	**3,659**	**3,795**
Current assets		
Inventories	988	886
Other current assets	46	52
Derivative financial assets	9	29
Income tax receivable	25	50
Receivables	1,599	1,600
Assets classified as held for sale	34	3
Cash and cash equivalents	83	1,040
Total current assets	**2,784**	**3,660**
Total assets	**6,443**	**7,455**
Equity		
Shareholders' equity	3,513	2,704
Non-controlling interest	103	104
Group equity	**3,616**	**2,808**
Non-current liabilities		
Long-term debt	2	1,224
Long-term provisions	350	881
Deferred tax liabilities	126	35
Other non-current liabilities	159	150
Total non-current liabilities	**637**	**2,290**
Current liabilities		
Short-term debt	86	157
Derivative financial liabilities	7	26
Income tax payable	6	57
Account and notes payable	1,051	1,024
Accrued liabilities	459	502
Short-term provisions	263	244
Liabilities associated with assets classified held for sale	6	1
Other current liabilities	312	346
Total current liabilities	**2,190**	**2,357**
Total liabilities and group equity	**6,443**	**7,455**

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D. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of EUR unless otherwise stated

	Q4		January to December	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
Cash flows from operating activities				
Net income (loss)	42	63	240	185
Adjustments to reconcile net income (loss) to net cash provided by operating activities	111	108	380	446
Depreciation, amortization and impairments of non-financial assets	85	75	315	293
Impairment of non-current financial assets	-	-	4	4
Net gain on sale of assets	(11)	(8)	(26)	(12)
Interest income	-	(1)	(3)	(6)
Interest expense on debt, borrowings and other liabilities	4	7	7	48
Income tax expense	33	35	83	119
Decrease (increase) in working capital	311	170	209	119
Decrease (increase) in receivables and other current assets	80	(82)	-	(27)
Decrease (increase) in inventories	196	139	29	104
Increase (decrease) in accounts payable, accrued and other current liabilities	35	113	180	42
Increase (decrease) in non-current receivables, other assets and other liabilities	13	6	(29)	(66)
Increase (decrease) in provisions	3	(20)	(79)	(71)
Interest paid	(2)	(8)	(2)	(29)
Income taxes paid	(1)	(23)	(26)	(96)
Other items	(4)	2	24	17
Net cash provided by operating activities	**473**	**298**	**717**	**505**
Cash flows from investing activities				
Net capital expenditures	5	(26)	(85)	(87)
Additions of intangible assets	(8)	(11)	(38)	(30)
Capital expenditures on property, plant and equipment	(25)	(28)	(98)	(79)
Proceeds from disposal of property, plant and equipment	38	13	51	22
Cash used for derivatives and current financial assets		(5)		(5)
Proceeds from other non-current financial assets	10	3	31	3
Purchases of other non-current financial assets	(8)	-	(11)	(7)
Proceeds from sale of interests in businesses, net of cash disposed of	5	29	-	34
Net cash used for investing activities	**12**	**1**	**(65)**	**(62)**
Cash flows from financing activities				
Funding by (distribution to) Royal Philips	(494)	43	(626)	(1,400)
Dividend paid	-	-	-	(10)
Capital contribution from Royal Philips	-	-	-	692
Proceeds from issuance (payments) of debt	12	(6)	(12)	1,225
Net cash (used for) provided by financing activities	**(482)**	**37**	**(638)**	**506**
Net cash provided by (used in) operations	**3**	**336**	**14**	**949**
Effect of changes in exchange rates on cash and cash equivalents	(2)	3	(6)	8
Cash and cash equivalents at the beginning of the period	82	701	75	83
Cash and cash equivalents at the end of the period	**83**	**1,040**	**83**	**1,040**

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Appendix B – Reconciliation of non-IFRS Financial Measures

Sales growth composition

Sales growth composition in %

2016 vs 2015	Q4			
	comparable growth	currency effects	consolidation changes	nominal growth
Lamps	-18.5	-0.6	-1.5	-20.6
LED	11.3	-1.4	0.0	9.9
Professional	0.1	-2.0	-0.4	-2.3
Home	8.8	-1.6	-0.5	6.7
Others	-	-	-	-
Total	**-3.2**	**-1.4**	**-0.8**	**-5.4**

2016 vs 2015	January to December			
	comparable growth	currency effects	consolidation changes	nominal growth
Lamps	-15.8	-1.9	-0.4	-18.1
LED	16.1	-2.3	0.0	13.8
Professional	-0.5	-2.0	-0.2	-2.7
Home	11.0	-2.1	-0.2	8.7
Others	-	-	-	-
Total	**-2.4**	**-2.0**	**-0.3**	**-4.7**

Sales growth composition in %

2016 vs 2015	Q4			
	comparable growth	currency effects	consolidation changes	nominal growth
Europe	-0.8	-1.8	-0.4	-3.0
Americas	-6.0	-1.6	-0.1	-7.7
Rest of the World	-2.8	-1.0	-0.3	-4.1
Global businesses	-4.2	-0.8	-7.7	-12.7
Total	**-3.2**	**-1.4**	**-0.8**	**-5.4**

2016 vs 2015	January to December			
	comparable growth	currency effects	consolidation changes	nominal growth
Europe	-2.0	-1.1	-0.5	-3.6
Americas	-1.9	-2.6	-0.1	-4.6
Rest of the World	-3.2	-2.9	-0.1	-6.2
Global businesses	-2.2	-0.1	-1.0	-3.3
Total	**-2.4**	**-2.0**	**-0.3**	**-4.7**

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

	Philips Lighting	Lamps	LED	Professional	Home	Others
October to December 2016						
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	(27)	-	(1)	(27)	1	-
Income from operations (or EBIT)	**109**	**93**	**51**	**19**	**-**	**(54)**
October to December 2015						
Adjusted EBITA	159	107	35	50	(7)	(26)
Restructuring	(38)	(15)	-	(16)	(9)	2
Acquisition-related Charges	(2)	-	-	(2)	-	-
Incidental items	(14)	(7)	(2)	(4)	(1)	-
EBITA	105	85	33	28	(17)	(24)
Amortization	(26)	(1)	(1)	(26)	1	1
Income from operations (or EBIT)	**79**	**84**	**32**	**2**	**(16)**	**(23)**

	Philips Lighting	Lamps	LED	Professional	Home	Others
January to December 2016						
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	(110)	(2)	(4)	(102)	(2)	-
Income from operations (or EBIT)	**369**	**433**	**136**	**(9)**	**(48)**	**(143)**
January to December 2015						
Adjusted EBITA	547	463	74	150	(57)	(83)
Restructuring	(90)	(52)	(2)	(26)	(14)	4
Acquisition-related Charges	(5)	-	-	(5)	-	-
Incidental items	(14)	(6)	(2)	(5)	(1)	-
EBITA	438	405	70	114	(72)	(79)
Amortization	(107)	(2)	(4)	(100)	(1)	-
Income from operations (or EBIT)	**331**	**403**	**66**	**14**	**(73)**	**(79)**

Adjusted Gross Margin in millions of EUR unless otherwise stated

	October to December 2015	October to December 2016	January to December 2015	January to December 2016
Sales	2,045	1,934	7,465	7,115
Cost of Sales	(1,335)	(1,211)	(4,810)	(4,438)
Gross Margin	**710**	**723**	**2,655**	**2,677**
Restructuring	29	20	62	85
Acquisition-related Charges	-	-	-	-
Incidental items	14	1	14	1
Adjusted Gross Margin	**753**	**744**	**2,731**	**2,763**
Adjusted Gross Margin %	36.8%	38.5%	36.6%	38.8%

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

	October to December 2015	October to December 2016	January to December 2015	January to December 2016
Selling expenses	(477)	(468)	(1,751)	(1,750)
G&A expenses	(68)	(70)	(233)	(248)
SG&A expenses	**(545)**	**(538)**	**(1,984)**	**(1,998)**
Restructuring	8	4	27	17
Acquisition-related Charges	2	2	5	3
Incidental items	-	25	-	61
Adjusted SG&A expenses	**(535)**	**(507)**	**(1,952)**	**(1,917)**
Adjusted SG&A expenses %	-26.2%	-26.2%	-26.1%	-26.9%

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

	October to December 2015	October to December 2016	January to December 2015	January to December 2016
R&D expenses	**(96)**	**(87)**	**(366)**	**(353)**
Restructuring	1	1	1	13
Acquisition-related Charges	-	-	-	-
Incidental items	-	-	-	-
Adjusted R&D expenses	**(95)**	**(86)**	**(365)**	**(340)**
Adjusted R&D expenses %	-4.6%	-4.4%	-4.9%	-4.8%

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
EBIT	Income from operations
EBITA	Income from operations excluding amortization and impairments of acquisition related intangible assets and goodwill
EBITDA	Income from operations excluding depreciation, amortization and impairments of non-financial assets
Effects of changes in consolidation	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
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, R&D and General and administrative 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, short-term loans payable (receivable) to Royal Philips, long-term debt minus cash and cash equivalents
Net leverage ratio	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
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, Income tax receivable minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, Income tax payable and Other current liabilities