

## Philips Lighting reports improvement in comparable sales growth, continued increase in operational profitability and free cash flow

### First quarter 2017 highlights

- Sales of EUR 1,690 million, with comparable sales of -0.8% (Q1 2016: -1.3%)
- Total LED-based sales growth of 19%, now representing 61% of total sales
- Continued year-on-year improvement in operational profitability
  - Adjusted EBITA of EUR 142 million (Q1 2016: EUR 121 million)
  - Adjusted EBITA margin improvement of 130 basis points to 8.4% (Q1 2016: 7.1%)
- Net income of EUR 61 million (Q1 2016: EUR 14 million)
- Free cash flow of EUR 2 million (Q1 2016: EUR -78 million)

**Eindhoven, the Netherlands** – Philips Lighting (Euronext Amsterdam: LIGHT) today announced the company's 2017 first quarter results. "Our comparable sales growth improved in comparison to previous quarters, driven by double-digit growth in our business groups LED and Home and a return to growth in Europe and the Rest of the World, despite ongoing challenging conditions in some markets. We continued to increase our operational profitability and free cash flow compared to the first quarter of last year, demonstrating the rigorous implementation of our strategy," said CEO Eric Rondolat. "These results reinforce our confidence that the company is well positioned to achieve its 2017 outlook and medium term goals."

### Key figures

| <i>in € million, unless otherwise indicated<sup>1</sup></i> | First Quarter |        |        |
|---|---------------|--------|--------|
|   | 2016          | 2017   | change |
| Sales   | 1,702         | 1,690  | -0.7%  |
| Comparable sales growth                                     |               |        | -0.8%  |
| Adjusted gross margin                                       | 640           | 669    | 4.5%   |
| Adjusted EBITA  | 121           | 142    | 17.4%  |
| EBITA   | 100           | 122    | 22.0%  |
| Income from operations (EBIT)                               | 71            | 94     | 32.4%  |
| Net income  | 14            | 61     | 335.7% |
| <i>% of sales</i>   |               |        |        |
| Adjusted gross margin                                       | 37.6%         | 39.6%  |        |
| Adjusted EBITA margin                                       | 7.1%          | 8.4%   |        |
| Free cash flow  | -78           | 2      |        |
| Basic EPS (€)   |               | 0.43   |        |
| Employees (FTE)   | 36,350        | 34,379 |        |

<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

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

## Financial review

| <i>in € million, except percentages</i> | First Quarter |              | change        |
|---|---------------|--------------|---------------|
|   | 2016          | 2017         |               |
| <b>Sales</b>                            | <b>1,702</b>  | <b>1,690</b> | <b>-0.7%</b>  |
| <i>Comparable sales growth</i>          |               |              | -0.8%         |
| <i>Effects of currency movements</i>    |               |              | 1.2%          |
| <i>Consolidation changes</i>            |               |              | -1.1%         |
| <b>Adjusted gross margin</b>            | <b>640</b>    | <b>669</b>   | <b>4.5%</b>   |
| Adjusted SG&A expenses                  | -470          | -483         |               |
| Adjusted R&D expenses                   | -91           | -86          |               |
| <b>Adjusted indirect costs</b>          | <b>-561</b>   | <b>-569</b>  | <b>-1.4%</b>  |
| <b>Adjusted EBITA</b>                   | <b>121</b>    | <b>142</b>   | <b>17.4%</b>  |
| Adjusted items                          | -21           | -20          |               |
| EBITA                                   | 100           | 122          | 22.0%         |
| <b>Income from operations (EBIT)</b>    | <b>71</b>     | <b>94</b>    | <b>32.4%</b>  |
| Net financial income/expense            | -17           | -11          |               |
| Income tax expense                      | -40           | -23          |               |
| <b>Net income</b>                       | <b>14</b>     | <b>61</b>    | <b>335.7%</b> |
| Adjusted gross margin (%)               | 37.6%         | 39.6%        |               |
| Adjusted indirect costs (%)             | 33.0%         | 33.7%        |               |
| Adjusted EBITA margin (%)               | 7.1%          | 8.4%         |               |

### First quarter

Sales amounted to EUR 1,690 million. On a comparable basis, the decline in sales slowed to -0.8%, an improvement compared to previous quarters. Europe and the Rest of the World delivered growth, while the Americas was impacted by an accelerated decline in conventional lighting and softer market conditions. Business groups LED and Home achieved double-digit growth, driving total LED-based sales growth of 19%. Total LED based-sales now represent 61% of total sales.

Adjusted gross margin amounted to EUR 669 million. As a percentage of sales, adjusted gross margin improved by 200 basis points to 39.6%, largely driven by procurement savings and currency impact, partly offset by price erosion. Adjusted indirect costs increased by EUR 8 million, to EUR 569 million, primarily due to currency impact and an additional month of the brand license fee in the quarter, while last year included a pension gain. Adjusted EBITA increased to EUR 142 million, resulting in a 130 basis point improvement of the Adjusted EBITA margin to 8.4%. Restructuring and incidental items amounted to EUR 20 million. Restructuring costs were EUR 10 million, while incidental items included a charge of EUR 9 million in separation costs.

Net income increased from EUR 14 million to EUR 61 million, driven by improved operational profitability and a decrease of both financial and income tax expenses. Financial expenses in the first quarter of last year were impacted by higher foreign currency exchange rate losses. The decrease in income tax expenses was primarily due to non-recurring tax charges related to the separation from Royal Philips last year.

## Business highlights for the first quarter

- **LED:** The Philips T5 LED tube expanded the Philips MASTER LED tubes portfolio as part of the company's continuous innovation in LED products to outgrow the market. The energy-saving, high-quality T5 LED tubes offer safe and easy installation with a simple lamp-for-lamp replacement.
- **Professional:** The Philips Lightpole Site Slim, a new connected street light for Europe, was introduced with Ericsson. It offers cities the benefit of both energy-efficient LED lighting and high-speed LTE/4G broadband connectivity, without cluttering the cityscape. The offering helps to capture adjacent value through new Services business models.
- **Professional:** Continuing our leadership in Systems and Services, Philips CityTouch added over 80 projects in the first quarter, bringing the total number of installations to 852 projects in 37 countries since 2012. Philips CityTouch allows municipalities to monitor, manage and measure their connected street lighting infrastructure through simple web applications and can help reduce energy consumption by up to 70%.
- **Professional:** The EDEKA Paschmann supermarket was Germany's first to adapt Philips Lighting's indoor positioning lighting system, signaling continued Systems leadership in the retail segment. The system helps shoppers locate items with an accuracy of 30 centimeters, with the goal of enhancing the shopper experience and improving retailer sales.
- **Home:** The Philips Hue white and color ambiance candle light bulb was introduced, strengthening Philips Hue's position as the most extensive connected home lighting system. The candle, available in Europe by end April and in North America later this year, means Philips Hue can be used in over 80% of light sockets in households around the world.
- **Home:** The new portable outdoor light, Philips Abelia LED lantern, was introduced as part of the company's continuous innovation in LED products. The introduction comes as consumers are increasingly looking for versatile outdoor lighting options, especially in urban places, where space is at a premium.

## Operational performance by business group

### Lamps

| <i>in € million, unless otherwise indicated</i> | First Quarter |       |        |
|---|---------------|-------|--------|
|   | 2016          | 2017  | change |
| Sales   | 615           | 498   | -19.1% |
| <i>Comparable sales growth (%)</i>              |               |       | -17.9% |
| Adjusted EBITA                                  | 125           | 114   | -8.8%  |
| Adjusted EBITA margin (%)                       | 20.3%         | 22.9% |        |
| EBITA   | 114           | 111   |        |
| Income from operations (EBIT)                   | 113           | 111   |        |

### First quarter

Sales amounted to EUR 498 million, a decline of 17.9% on a comparable basis. Adjusted EBITA decreased to EUR 114 million, with an improvement of the Adjusted EBITA margin by 260 basis points to 22.9%. Excluding a gain on the sale of real estate, the Adjusted EBITA margin would have been 20.9%, reflecting the successful implementation of our "last man standing" strategy.

## LED

| <i>in € million, unless otherwise indicated</i> | First Quarter |      | change |
|---|---------------|------|--------|
|   | 2016          | 2017 |        |
| Sales   | 355           | 422  | 18.8%  |
| Comparable sales growth (%)                     |               |      | 16.7%  |
| Adjusted EBITA                                  | 20            | 39   | 95.0%  |
| Adjusted EBITA margin (%)                       | 5.6%          | 9.2% |        |
| EBITA   | 20            | 39   |        |
| Income from operations (EBIT)                   | 19            | 38   |        |

### First quarter

Sales were EUR 422 million, resulting in comparable sales growth of 16.7%. Volumes were higher due to continued price erosion and mix impact. All regions contributed to growth, while countries with low LED penetration rates showed higher growth. The comparable sales trend in the Americas improved compared to previous quarters, benefiting from measures taken. Adjusted EBITA increased to EUR 39 million, driven by operational leverage and procurement savings, off-setting price reductions and mix impact. Adjusted EBITA margin increased by 360 basis points to 9.2%. Excluding the impact of incidentals this quarter, the Adjusted EBITA margin improved by 290 basis points.

## Professional

| <i>in € million, unless otherwise indicated</i> | First Quarter |      | change |
|---|---------------|------|--------|
|   | 2016          | 2017 |        |
| Sales   | 601           | 621  | 3.3%   |
| Comparable sales growth (%)                     |               |      | 2.5%   |
| Adjusted EBITA                                  | 6             | 13   | 116.7% |
| Adjusted EBITA margin (%)                       | 1.0%          | 2.1% |        |
| EBITA   | 1             | 9    |        |
| Income from operations (EBIT)                   | -25           | -17  |        |

### First quarter

Sales amounted to EUR 621 million, an increase of 2.5% on a comparable basis. Europe and the Rest of the World showed growth. The Americas had a soft start, but the order backlog improved during the quarter. Adjusted EBITA increased by EUR 7 million to EUR 13 million. The Adjusted EBITA margin increased by 110 basis points to 2.1%. Excluding the impact of incidentals, most notably the EUR 12 million gain on the sale of receivables in 2016, the year-on-year margin improvement was 280 basis points. Procurement savings, production efficiency improvements and mix improvement were partly offset by write-downs on bad debt in Saudi Arabia, although to a lesser extent than experienced in previous quarters.

## Home

| <i>in € million, unless otherwise indicated</i> | First Quarter |      | change |
|---|---------------|------|--------|
|   | 2016          | 2017 |        |
| Sales   | 124           | 148  | 20.0%  |
| Comparable sales growth (%)                     |               |      | 20.6%  |
| Adjusted EBITA                                  | -12           | 3    |        |
| Adjusted EBITA margin (%)                       | -9.7%         | 2.0% |        |
| EBITA   | -14           | 1    |        |
| Income from operations (EBIT)                   | -15           | 0    |        |

### First quarter

Sales in the first quarter increased to EUR 148 million as comparable sales grew by 20.6%, primarily driven by the Home Systems business. All market groups contributed to growth. At EUR 3 million, Adjusted EBITA turned

positive in the first three months of the year, showing the benefits of sales growth and cost reduction actions taken in 2016. The Adjusted EBITA margin improved from -9.7% last year to a positive 2.0%. The performance of Home illustrates the success of our connected lighting systems strategy.

## Other

### First quarter

Adjusted EBITA decreased to EUR -27 million in the quarter (Q1 2016: EUR -18 million). The decrease of EUR 9 million can primarily be explained by a pension gain in the first quarter last year and additional expenses to support innovation in the first quarter of this year. Adjusted EBITA represents amounts not allocated to the operating segments and is mainly comprised of certain costs related to group enabling functions and activities to drive innovation. EBITA amounted to EUR -38 million (Q1 2016: EUR -21 million), including a charge of EUR 9 million for separation costs (Q1 2016: EUR 2 million).

## Sales by market

| <i>in € million, except percentages</i> | 2016         | First Quarter |              | CSG*         |
|---|--------------|---------------|--------------|--------------|
|   |              | 2017          | change       |              |
| Europe                                  | 533          | 553           | 3.8%         | 4.9%         |
| Americas                                | 555          | 534           | -3.7%        | -7.0%        |
| Rest of the World                       | 486          | 500           | 3.0%         | 1.9%         |
| Global businesses                       | 128          | 103           | -20.0%       | -9.1%        |
| <b>Total</b>                            | <b>1,702</b> | <b>1,690</b>  | <b>-0.7%</b> | <b>-0.8%</b> |

\* CSG: Comparable Sales Growth

### First quarter

Sales in Europe increased 4.9% on a comparable basis, with all countries contributing to this performance. In the Americas, sales declined 7.0% on a comparable basis due to an accelerated decline in conventional lighting and softer market conditions. Sales on a comparable basis for the Rest of the World increased 1.9%, particularly driven by a solid performance in China and India, offsetting the impact of challenging macro-economic conditions in some markets.

## Financial condition

### Working capital

| <i>in € million, unless otherwise indicated</i> | 31 Mar '16 | 31 Dec '16 | 31 Mar '17 |
|---|------------|------------|------------|
| Inventories                                     | 1,010      | 886        | 982        |
| Receivables                                     | 1,512      | 1,600      | 1,472      |
| Accounts and notes payable                      | -912       | -1,024     | -1,034     |
| Accrued liabilities                             | -404       | -502       | -450       |
| Other   | -341       | -298       | -275       |
| <b>Working capital</b>                          | <b>865</b> | <b>662</b> | <b>695</b> |
| As % of LTM* sales                              | 11.6%      | 9.3%       | 9.8%       |

\* LTM: Last Twelve Months

### First quarter

Working capital improved year-on-year by EUR 170 million to EUR 695 million. Working capital represents 9.8% of sales, compared to 11.6% at the end of March 2016, reflecting sustained improvements achieved last year.

## Cash flow analysis

| <i>in € million</i>           | First Quarter |          |
|-------------------------------|---------------|----------|
|                               | 2016          | 2017     |
| Income from operations (EBIT) | 71            | 94       |
| Depreciation and amortization | 76            | 66       |
| Change in working capital     | -102          | -49      |
| Net capex                     | -18           | -1       |
| Change in provisions          | -31           | -36      |
| Interest paid                 | -1            | -3       |
| Income taxes paid             | -17           | -28      |
| Other                         | -56           | -41      |
| <b>Free cash flow</b>         | <b>-78</b>    | <b>2</b> |

### First quarter

Free cash flow improved by EUR 80 million to EUR 2 million, primarily attributable to improved profitability, lower cash outflow on working capital and a reduced net capex, partly offset by higher taxes. Free cash flow also includes a restructuring pay-out of EUR 29 million (Q1 2016: EUR 38 million) and separation costs of EUR 6 million (Q1 2016: EUR 0 million), while last year's free cash flow included cash outflow of EUR 45 million related to pension liability de-risking in the US.

## Net debt

| <i>in € million</i>                            | 31 Dec '16 | 31 Mar '17 |
|--|------------|------------|
| Short-term debt                                | 155        | 146        |
| Short-term loans payable to Royal Philips      | 2          | 0          |
| Long-term debt                                 | 1,224      | 1,214      |
| Gross debt                                     | 1,381      | 1,360      |
| Short-term loans receivable from Royal Philips | 0          | 9          |
| Cash and cash equivalents                      | 1,040      | 935        |
| <b>Net debt</b>                                | <b>341</b> | <b>416</b> |

### First quarter

Net debt amounted to EUR 416 million, an increase of EUR 75 million. Net debt was impacted by EUR 82 million due to our participation in the share disposal by our main shareholder in February. The acquired 3.5 million shares will be cancelled in the course of the second quarter. As a consequence, the cash position decreased to EUR 935 million. Total equity decreased to EUR 2,746 million at the end of the first quarter (Q4 2016: EUR 2,808 million), primarily due to the share purchase and currency translation result, partly offset by positive net income. Total equity minus net debt amounted to EUR 2,330 million.

## Other information

Appendix A – Financial statement information

Appendix B – Reconciliation of non-IFRS Financial Measures

Appendix C – Financial Glossary

## Conference call and audio webcast

Eric Rondolat (CEO) and Stéphane Rougeot (CFO) will host a conference call for investors and analysts at 10:00 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: <http://www.lighting.philips.com/main/investor/>

## Financial Calendar 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 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.

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 “Chapter 17 Reconciliation of non-IFRS measures” in the Annual Report 2016.

### 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 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.

In addition, we have simplified our Q1 and Q3 reporting by excluding the cash flow statement. In our semi-annual and annual reporting we will continue to present this statement. Cash flow analysis is provided in the Financial condition section of this document.

### 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

|   | First Quarter     |                   |
|---|-------------------|-------------------|
|   | 2016<br>unaudited | 2017<br>unaudited |
| Sales   | 1,702             | 1,690             |
| Cost of sales   | (1,075)           | (1,024)           |
| <b>Gross margin</b>   | <b>627</b>        | <b>666</b>        |
| Selling expenses  | (430)             | (442)             |
| Research and development expenses   | (90)              | (87)              |
| General and administrative expenses   | (49)              | (56)              |
| Impairment of goodwill  | (2)               | -                 |
| Other business income   | 18                | 16                |
| Other business expenses   | (3)               | (3)               |
| <b>Income from operations</b>   | <b>71</b>         | <b>94</b>         |
| Financial income  | 4                 | 2                 |
| Financial expenses  | (21)              | (13)              |
| Results relating to investments in associates   | -                 | 1                 |
| <b>Income before taxes</b>  | <b>54</b>         | <b>84</b>         |
| Income tax expense  | (40)              | (23)              |
| <b>Net income</b>   | <b>14</b>         | <b>61</b>         |
| <b>Attribution of net income for the period:</b>  |                   |                   |
| Net income attributable to shareholders of Philips Lighting N.V.                            | 15                | 64                |
| Net income attributable to non-controlling interests  | (1)               | (3)               |
| <b>Earnings per ordinary share attributable to shareholders</b>                             |                   |                   |
| Weighted average number of ordinary shares outstanding used for calculation (in thousands): |                   |                   |
| Basic   | -                 | 148,172           |
| Diluted   | -                 | 148,407           |
| Net income attributable to shareholders per ordinary share in EUR:                          |                   |                   |
| Basic   | -                 | 0.43              |
| Diluted   | -                 | 0.43              |

## B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

|   | First Quarter     |                   |
|---|-------------------|-------------------|
|   | 2016<br>unaudited | 2017<br>unaudited |
| <b>Net income for the period</b>  | <b>14</b>         | <b>61</b>         |
| Pensions and other post-employment plans:                               |                   |                   |
| Remeasurements  | -                 | 1                 |
| Income tax effect on remeasurements                                     | -                 | -                 |
| <b>Total of items that will not be reclassified to profit or loss</b>   | <b>-</b>          | <b>1</b>          |
| Currency translation differences:                                       |                   |                   |
| Net current period change, before tax                                   | (81)              | (37)              |
| Income tax effect   | -                 | -                 |
| Cash flow hedges:   |                   |                   |
| Net current period change, before tax                                   | (4)               | (7)               |
| Income tax effect   | 1                 | -                 |
| <b>Total of items that are or may be reclassified to profit or loss</b> | <b>(84)</b>       | <b>(44)</b>       |
| <b>Other comprehensive (loss) income for the period</b>                 | <b>(84)</b>       | <b>(43)</b>       |
| <b>Total comprehensive income for the period</b>                        | <b>(70)</b>       | <b>18</b>         |
| <b>Total comprehensive income (loss) attributable to:</b>               |                   |                   |
| Shareholders of Philips Lighting N.V.                                   | (65)              | 23                |
| Non-controlling interests   | (5)               | (5)               |

## C. CONDENSED CONSOLIDATED BALANCE SHEET

in millions of EUR unless otherwise stated

|  | 31 December<br>2016 | 31 March 2017 |
|--|---------------------|---------------|
| <b>Non-current assets</b>  |                     |               |
| Property, plant and equipment  | 566                 | 547           |
| Goodwill   | 1,899               | 1,865         |
| Intangible assets, excluding goodwill                                | 768                 | 727           |
| Non-current receivables  | 25                  | 39            |
| Investments in associates  | 26                  | 27            |
| Other non-current financial assets                                   | 11                  | 11            |
| Deferred tax assets  | 472                 | 484           |
| Other non-current assets   | 28                  | 26            |
| <b>Total non-current assets</b>                                      | <b>3,795</b>        | <b>3,726</b>  |
| <b>Current assets</b>  |                     |               |
| Inventories  | 886                 | 982           |
| Other current assets   | 52                  | 109           |
| Derivative financial assets  | 29                  | 22            |
| Income tax receivable  | 50                  | 56            |
| Receivables  | 1,600               | 1,472         |
| Assets classified as held for sale                                   | 3                   | 3             |
| Cash and cash equivalents  | 1,040               | 935           |
| <b>Total current assets</b>  | <b>3,660</b>        | <b>3,579</b>  |
| <b>Total assets</b>  | <b>7,455</b>        | <b>7,305</b>  |
| <b>Equity</b>  |                     |               |
| Shareholders' equity   | 2,704               | 2,647         |
| Non-controlling interest   | 104                 | 99            |
| <b>Total equity</b>  | <b>2,808</b>        | <b>2,746</b>  |
| <b>Non-current liabilities</b>                                       |                     |               |
| Long-term debt   | 1,224               | 1,214         |
| Long-term provisions   | 881                 | 866           |
| Deferred tax liabilities   | 35                  | 33            |
| Other non-current liabilities  | 150                 | 147           |
| <b>Total non-current liabilities</b>                                 | <b>2,290</b>        | <b>2,260</b>  |
| <b>Current liabilities</b>   |                     |               |
| Short-term debt  | 157                 | 146           |
| Derivative financial liabilities                                     | 26                  | 24            |
| Income tax payable   | 57                  | 78            |
| Account and notes payable  | 1,024               | 1,034         |
| Accrued liabilities  | 502                 | 450           |
| Short-term provisions  | 244                 | 216           |
| Liabilities directly associated with assets classified held for sale | 1                   | 1             |
| Other current liabilities  | 346                 | 350           |
| <b>Total current liabilities</b>                                     | <b>2,357</b>        | <b>2,299</b>  |
| <b>Total liabilities and total equity</b>                            | <b>7,455</b>        | <b>7,305</b>  |

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

### Sales growth composition

**Sales growth composition in %**

|                     | First Quarter     |                  |                       |                |
|---------------------|-------------------|------------------|-----------------------|----------------|
|                     | comparable growth | currency effects | consolidation changes | nominal growth |
| <b>2017 vs 2016</b> |                   |                  |                       |                |
| Lamps               | -17.9             | 1.2              | -2.4                  | -19.1          |
| LED                 | 16.7              | 1.7              | 0.4                   | 18.8           |
| Professional        | 2.5               | 0.8              | 0.0                   | 3.3            |
| Home                | 20.6              | 1.2              | -1.8                  | 20.0           |
| Others              | -81.9             | 0.5              | 0.0                   | -81.4          |
| <b>Total</b>        | <b>-0.8</b>       | <b>1.2</b>       | <b>-1.1</b>           | <b>-0.7</b>    |

**Sales growth composition in %**

|                     | First Quarter     |                  |                       |                |
|---------------------|-------------------|------------------|-----------------------|----------------|
|                     | comparable growth | currency effects | consolidation changes | nominal growth |
| <b>2017 vs 2016</b> |                   |                  |                       |                |
| Europe              | 4.9               | -0.9             | -0.2                  | 3.8            |
| Americas            | -7.0              | 3.6              | -0.3                  | -3.7           |
| Rest of the World   | 1.9               | 0.9              | 0.2                   | 3.0            |
| Global businesses   | -9.1              | 0.6              | -11.5                 | -20.0          |
| <b>Total</b>        | <b>-0.8</b>       | <b>1.2</b>       | <b>-1.1</b>           | <b>-0.7</b>    |

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

|   | Philips<br>Lighting | Lamps      | LED       | Professional | Home        | Others      |
|---|---------------------|------------|-----------|--------------|-------------|-------------|
| <b>January to March 2017</b>            |                     |            |           |              |             |             |
| Adjusted EBITA                          | 142                 | 114        | 39        | 13           | 3           | (27)        |
| Restructuring                           | (10)                | (3)        | -         | (4)          | (2)         | (1)         |
| Acquisition-related Charges             | -                   | -          | -         | -            | -           | -           |
| Incidental items                        | (10)                | -          | -         | -            | -           | (10)        |
| EBITA                                   | 122                 | 111        | 39        | 9            | 1           | (38)        |
| Amortization                            | (28)                | -          | (1)       | (26)         | (1)         | -           |
| <b>Income from operations (or EBIT)</b> | <b>94</b>           | <b>111</b> | <b>38</b> | <b>(17)</b>  | <b>-</b>    | <b>(38)</b> |
| <b>January to March 2016</b>            |                     |            |           |              |             |             |
| Adjusted EBITA                          | 121                 | 125        | 20        | 6            | (12)        | (18)        |
| Restructuring                           | (18)                | (11)       | -         | (4)          | (2)         | (1)         |
| Acquisition-related Charges             | (1)                 | -          | -         | (1)          | -           | -           |
| Incidental items                        | (2)                 | -          | -         | -            | -           | (2)         |
| EBITA                                   | 100                 | 114        | 20        | 1            | (14)        | (21)        |
| Amortization                            | (29)                | (1)        | (1)       | (26)         | (1)         | -           |
| <b>Income from operations (or EBIT)</b> | <b>71</b>           | <b>113</b> | <b>19</b> | <b>(25)</b>  | <b>(15)</b> | <b>(21)</b> |

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

|                              | January to March<br>2016 | January to March<br>2017 |
|------------------------------|--------------------------|--------------------------|
| Sales                        | 1,702                    | 1,690                    |
| Cost of Sales                | (1,075)                  | (1,024)                  |
| <b>Gross Margin</b>          | <b>627</b>               | <b>666</b>               |
| Restructuring                | 13                       | 3                        |
| Acquisition-related Charges  | -                        | -                        |
| Incidental items             | -                        | -                        |
| <b>Adjusted Gross Margin</b> | <b>640</b>               | <b>669</b>               |
| Adjusted Gross Margin %      | 37.6%                    | 39.6%                    |

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

|                                   | January to March<br>2016 | January to March<br>2017 |
|-----------------------------------|--------------------------|--------------------------|
| Selling expenses                  | (430)                    | (442)                    |
| G&A expenses                      | (49)                     | (56)                     |
| <b>SG&amp;A expenses</b>          | <b>(479)</b>             | <b>(498)</b>             |
| Restructuring                     | 6                        | 6                        |
| Acquisition-related Charges       | 1                        | -                        |
| Incidental items                  | 2                        | 9                        |
| <b>Adjusted SG&amp;A expenses</b> | <b>(470)</b>             | <b>(483)</b>             |
| Adjusted SG&A expenses %          | -27.6%                   | -28.6%                   |

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

|                                  | January to March<br>2016 | January to March<br>2017 |
|----------------------------------|--------------------------|--------------------------|
| <b>R&amp;D expenses</b>          | <b>(90)</b>              | <b>(87)</b>              |
| Restructuring                    | (1)                      | 1                        |
| Acquisition-related Charges      | -                        | -                        |
| Incidental items                 | -                        | -                        |
| <b>Adjusted R&amp;D expenses</b> | <b>(91)</b>              | <b>(86)</b>              |
| Adjusted R&D expenses %          | -5.3%                    | -5.1%                    |

## 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  |
| <b>EBIT</b>                                | Income from operations   |
| <b>EBITA</b>                               | Income from operations excluding amortization and impairments of acquisition related intangible assets and goodwill  |
| <b>EBITDA</b>                              | Income from operations excluding depreciation, amortization and impairments of non-financial assets  |
| <b>Effects of changes in consolidation</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   |
| <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>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>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>Net debt</b>                 | Short-term debt, short-term loans payable (receivable) to Royal Philips, 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 |