

Philips Lighting reports second quarter sales of EUR 1.7 billion and operational profitability of 10.2%

Second quarter 2017 highlights

- Sales of EUR 1,699 million, with a decline in comparable sales of 1.8%
- Total LED-based sales growth of 14%, now representing 63% of total sales (Q2 2016: 53%)
- Adjusted EBITA of EUR 174 million (Q2 2016: EUR 161 million)
- Adjusted EBITA margin of 10.2% (Q2 2016: 9.3%)
- Net income of EUR 73 million (Q2 2016: EUR 57 million)
- Free cash flow of EUR -27 million (Q2 2016: EUR 60 million)

Half year 2017 highlights

- Sales amounted to EUR 3,389 million, with a decline in comparable sales of 1.3%
- Total LED-based sales growth of 17%, now representing 62% of total sales (H1 2016: 52%)
- Adjusted EBITA of EUR 317 million (H1 2016: EUR 282 million)
- Adjusted EBITA margin of 9.4% (H1 2016: 8.2%)
- Net income of EUR 134 million (H1 2016: EUR 71 million)
- Free cash flow of EUR -26 million (H1 2016: EUR -18 million)

Eindhoven, the Netherlands – Philips Lighting (Euronext Amsterdam: LIGHT) today announced the company's 2017 second quarter results. "I am pleased that our LED, Professional and Home businesses posted solid operating margin increases, while Lamps maintained its high level of profitability," said CEO Eric Rondolat. "In the first half of the year, our growth profile improved and our profitability continued to increase. This demonstrates the successful implementation of our strategy and reinforces our confidence that we are on track to achieve our outlook for 2017."

Outlook

We are on track to further improve our Adjusted EBITA margin by 50-100 basis points for the full year, excluding a EUR 15 million real estate gain in the second quarter, and to deliver solid free cash flow. While we are cautious given global economic uncertainty, we are confident that we will return to positive comparable sales growth in the course of this year.

Financial review¹

Second Quarter			in € million, except percentages	First Half Year		
2016	2017	change		2016	2017	change
1,734	1,699	-2.0%	Sales	3,436	3,389	-1.3%
		-1.8%	Comparable sales growth			-1.3%
		0.8%	Effects of currency movements			1.0%
		-1.0%	Consolidation changes			-1.0%
687	678	-1.3%	Adjusted gross margin	1,327	1,347	1.5%
39.6%	39.9%		Adj. gross margin (as % of sales)	38.6%	39.7%	
-473	-466		Adj. SG&A expenses	-943	-948	
-82	-83		Adj. R&D expenses	-173	-169	
-555	-549	1.1%	Adj. indirect costs	-1,116	-1,117	-0.1%
32.0%	32.3%		Adj. indirect costs (as % of sales)	32.5%	33.0%	
161	174	8.1%	Adjusted EBITA	282	317	12.4%
9.3%	10.2%		Adjusted EBITA margin (%)	8.2%	9.4%	
-38	-35		Adjusted items	-59	-55	
123	139	13.0%	EBITA	223	262	17.5%
96	111	15.6%	Income from operations (EBIT)	167	206	23.4%
-26	-11		Net financial income/expense	-43	-22	
-14	-26		Income tax expense	-54	-50	
57	73	28.1%	Net income	71	134	88.7%
60	-27		Free cash flow	-18	-26	
0.37	0.51		Basic EPS (€)	0.47	0.94	
35,104	34,545		Employees (FTE)	35,104	34,545	

Second quarter

Sales amounted to EUR 1,699 million. On a comparable basis, the decline in sales was 1.8%, due to the ongoing decline in the conventional lighting market, which was partly offset by significant growth in LED and connected lighting systems. Europe delivered robust growth, while the Americas continued to experience softer market conditions. Markets in the Middle East & Turkey, most notably Saudi Arabia, continued to be challenging. Business groups LED and Home achieved double-digit growth, driving total LED-based sales growth of 14%. Total LED-based sales now represent 63% of total sales compared to 53% in the same quarter last year. As a percentage of sales, adjusted gross margin improved by 30 basis points to 39.9%, largely driven by procurement savings and increased productivity, partly offset by price erosion. Adjusted indirect costs as a percentage of sales increased by 30 basis points to 32.3%. Adjusted EBITA increased to EUR 174 million, resulting in a 90 basis points improvement of the Adjusted EBITA margin to 10.2%. Excluding a real estate gain of EUR 15 million in Home, the Adjusted EBITA margin increased by 10 basis points to 9.4%. Restructuring and incidental items amounted to EUR 35 million. Restructuring costs were EUR 30 million, while incidental items included EUR 5 million separation costs. Net income increased from EUR 57 million to EUR 73 million.

¹This 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.

First half year

Solid progress was made overall and in each business group. Comparable sales declined by 1.3%, which is an improvement compared to the comparable sales performance of -2.4% of full year 2016. Total LED-based sales saw robust growth of 17%, which was offset by a decline in conventional lighting. As a percentage of sales, adjusted gross margin improved by 110 basis points to 39.7%, driven by procurement and productivity savings, partly offset by price erosion. Adjusted indirect costs as a percentage of sales increased by 50 basis points to 33.0%. Adjusted EBITA increased to EUR 317 million, or 9.4% of sales. Excluding a real estate gain of EUR 15 million in Home in the second quarter, the Adjusted EBITA margin was 8.9%. Restructuring and other incidentals amounted to EUR 55 million. Restructuring costs were EUR 41 million, while separation costs amounted to EUR 14 million.

Business highlights for the second quarter

- **LED:** We introduced the Philips TrueForce LED range, supporting our continuous innovation in LED products to outgrow the market. TrueForce LED offers simple lamp-for-lamp replacement of select high intensity discharge lamps and reduces energy and maintenance costs in the outdoor and industrial sectors.
- **LED:** In the US, we introduced Philips InstantFit LED T8 lamps with EasySmart technology, also supporting our continuous innovation in LED products to outgrow the market. The InstantFit platform ensures easy integration with control devices and systems and makes the new TLED lamps the first and only wireless, network-capable linear lamp retrofit.
- **Professional:** In the US, we introduced InterAct Office, cloud-based software that enables wireless control of connected lighting systems, resulting in faster and easier office lighting renovations. InterAct Office also controls our Power-over-Ethernet (PoE) lighting systems, which have been deployed worldwide, and signals our continued leadership in lighting systems for the office segment. InterAct Office can deliver data-driven insights, enable instant energy savings of up to 70% and optimize operations via new applications including lighting energy, scene, and space management.
- **Professional:** Continuing our leadership in systems for the sports segment, we extended Philips ArenaVision dynamic LED pitch lighting to the stadiums of Olympique Lyonnais, Sevilla FC and the Sinan Erdem Arena in Istanbul. ArenaVision enhances the fan experience, boosts the multi-purpose appeal of stadiums for hosting other live events and meets the latest standards of international sports federations and broadcasters. We also introduced Philips PerfectPlay, a new web-controlled LED lighting system for recreational sports facilities. PerfectPlay reduces energy costs, simplifies operations and maximizes revenue potential, while providing better quality lighting for athletes.
- **Professional:** In Russia, we announced the world's largest LED horticultural lighting project with Agro-Invest, demonstrating our ability to continue leading the shift to systems in the agricultural sector. The project, which is approximately 40 soccer pitches in size, will enable year-round growing and is expected help boost yields and to save 50% on energy costs compared to conventional high-pressure sodium lighting.
- **Home:** Philips Lighting continues to optimize the speed of cloud-based communication between Philips Hue and voice-activated platforms, to strengthen its position as the world's leading connected home lighting system. The introduction of voice-activated platforms such as Amazon Echo, Apple HomePod and Google Home, is helping to drive sales of Hue.

Operational performance by business group

Lamps

Second Quarter				First Half Year		
2016	2017	change	<i>in € million, unless otherwise indicated</i>	2016	2017	change
572	458	-20.0%	Sales	1,187	955	-19.5%
		-18.2%	Comparable sales growth (%)			-18.0%
117	95	-18.8%	Adjusted EBITA	242	209	-13.6%
20.5%	20.7%		Adjusted EBITA margin (%)	20.4%	21.9%	
118	98		EBITA	232	209	
117	98		Income from operations (EBIT)	230	209	

Second quarter

Sales amounted to EUR 458 million, a decline of 18.2% on a comparable basis. Adjusted EBITA decreased to EUR 95 million, due to the sales decline, partly offset by procurement and productivity savings. The Adjusted EBITA margin increased by 20 basis points to 20.7%. Restructuring costs were positive in the second quarter driven by the release of provisions, as certain actual costs related to the rationalization of the manufacturing footprint were lower than originally anticipated.

First half year

Sales amounted to EUR 955 million, a decline of 18.0% on a comparable basis, due to the rapid transition from conventional to LED lighting. Adjusted EBITA decreased to EUR 209 million. The Adjusted EBITA margin increased by 150 basis points to 21.9%. Excluding a gain on the sale of real estate in the first quarter, the Adjusted EBITA margin was 20.8%, driven by a pro-active rationalization of the manufacturing footprint as well as by productivity and procurement savings. The company estimates that the conventional lighting market declined at a faster pace than its Lamps business in the first half of 2017, which has resulted in continued market share gains.

LED

Second Quarter				First Half Year		
2016	2017	change	<i>in € million, unless otherwise indicated</i>	2016	2017	change
346	426	23.0%	Sales	701	848	20.9%
		20.9%	Comparable sales growth (%)			18.8%
29	45	55.2%	Adjusted EBITA	49	84	71.4%
8.4%	10.6%		Adjusted EBITA margin (%)	7.0%	9.9%	
28	42		EBITA	48	81	
27	41		Income from operations (EBIT)	46	79	

Second quarter

Sales were EUR 426 million, resulting in comparable sales growth of 20.9%, driven by significant volume growth, partly offset by lower selling prices and stronger growth in affordable products. All regions contributed to growth, with countries with low LED penetration rates continuing to show higher growth. The Adjusted EBITA increased to EUR 45 million, driven by operational leverage and procurement savings, offsetting price reductions and mix impact. Adjusted EBITA margin increased by 220 basis points to 10.6%.

First half year

Sales amounted to EUR 848 million, resulting in comparable sales growth of 18.8%. Volumes were higher due to lower selling prices and stronger growth in affordable products. The Americas and the Rest of the World continued to deliver robust growth, while some countries in Europe showed more moderate sales growth due to high LED penetration rates. Adjusted EBITA increased to EUR 84 million, driven by continued operational leverage, procurement savings and innovation. The Adjusted EBITA margin increased by 290 basis points to 9.9%.

Professional

Second Quarter			in € million, unless otherwise indicated	First Half Year		
2016	2017	change		2016	2017	change
684	668	-2.3%	Sales	1,285	1,289	0.3%
		-2.7%	Comparable sales growth (%)			-0.3%
46	48	4.3%	Adjusted EBITA	52	61	17.3%
6.7%	7.2%		Adjusted EBITA margin (%)	4.0%	4.7%	
45	25		EBITA	46	34	
21	-1		Income from operations (EBIT)	-4	-18	

Second quarter

Sales amounted to EUR 668 million, a decrease of 2.7% on a comparable basis, which partly reflects a high comparison base in the second quarter of 2016 due to a large project in Asia Pacific. Europe and Greater China remained strong, while market conditions in the United States continued to be soft, particularly for small- to medium-sized projects. Market conditions in Saudi Arabia continued to be challenging, negatively impacting comparable sales growth by 180 basis points. Adjusted EBITA increased by EUR 2 million to EUR 48 million. The Adjusted EBITA margin increased by 50 basis points to 7.2%, mainly driven by procurement savings and mix improvements. Restructuring costs amounted to EUR 23 million, related to ongoing rationalization of the manufacturing footprint and indirect cost reductions.

First half year

Sales were EUR 1,289 million and showed a 0.3% decline on a comparable basis. Europe and Greater China showed robust growth. Market conditions in Saudi Arabia remained challenging. The performance in the United States was impacted by soft market conditions, particularly in the market for small- to medium-sized projects, but the order backlog for larger projects in the United States continues to be strong and is expected to positively impact comparable sales growth and the Adjusted EBITA margin in the second half of the year. Adjusted EBITA was EUR 61 million. The Adjusted EBITA margin improved by 70 basis points to 4.7%, driven by procurement savings and introductions of new products and systems.

Home

Second Quarter			in € million, unless otherwise indicated	First Half Year		
2016	2017	change		2016	2017	change
127	146	14.9%	Sales	251	294	17.4%
		15.5%	Comparable sales growth (%)			18.0%
-10	12		Adjusted EBITA	-22	13	
-7.9%	8.2%		Adjusted EBITA margin (%)	-8.8%	4.4%	
-32	10		EBITA	-46	10	
-33	9		Income from operations (EBIT)	-48	9	

Second quarter

Sales amounted to EUR 146 million, an increase of 15.5% on a comparable basis, driven by sustained growth from both Home Systems and Home Luminaires and by all regions. To support the growth of the Philips Hue offering, investments in innovation, marketing and supply chain were stepped-up and are expected to further expand growth for the second half of this year. Adjusted EBITA increased to EUR 12 million, improving the Adjusted EBITA margin to 8.2%. Excluding a gain on the sale of real estate of EUR 15 million, the Adjusted EBITA margin improved by 580 basis points to -2.1%.

First half year

Sales increased to EUR 294 million, resulting in comparable sales growth of 18.0%, driven by growth in both Home Systems and Home Luminaires due to the continued focus on innovation. Demand for Philips Hue increased significantly in the first half of the year illustrating the success of our connected lighting system strategy, partly as a result of our strong partnerships with the makers of recently introduced voice-activated smart home devices. Adjusted EBITA was positive in the first half of 2017 and amounted to EUR 13 million, or 4.4% as a percentage of sales. Excluding the impact of the real estate gain, the Adjusted EBITA margin was close to break-even. Hence, Home is on track to becoming profitable on a full-year basis in 2017, excluding the impact of the real estate gain.

Other

Second quarter

Adjusted EBITA decreased to EUR -26 million in the quarter (Q2 2016: EUR -21 million). Adjusted EBITA represents amounts not allocated to the operating segments and is comprised of certain costs related to group enabling functions as well as central R&D activities to drive innovation. EBITA amounted to EUR -36 million (Q2 2016: EUR -36 million), including EUR 5 million restructuring costs (Q2 2016: nil) and EUR 5 million separation costs (Q2 2016: EUR 15 million).

First half year

Adjusted EBITA amounted to EUR -50 million for the first half year of 2017 (H1 2016: EUR -39 million). The decrease of EUR 11 million can primarily be explained by additional expenses to support innovation in the first half of this year. EBITA amounted to EUR -72 million (H1 2016: EUR -57 million), including EUR 13 million separation costs (H1 2016: EUR 17 million) and EUR 8 million restructuring costs.

Sales by market

Second Quarter				in € million, except percentages	First Half Year			
2016	2017	Change	CSG*		2016	2017	change	CSG*
512	521	1.9%	3.1%	Europe	1,045	1,075	2.9%	4.0%
549	539	-1.9%	-3.9%	Americas	1,104	1,073	-2.8%	-5.4%
543	530	-2.4%	-3.6%	Rest of the World	1,029	1,030	0.1%	-1.0%
130	109	-16.1%	-4.6%	Global businesses	258	211	-18.0%	-6.8%
1,734	1,699	-2.0%	-1.8%	Total	3,436	3,389	-1.3%	-1.3%

* CSG: Comparable Sales Growth

Second quarter

Comparable sales in Europe increased by 3.1%, driven by solid performance in, among others, Benelux, Germany and Iberia. In the Americas, sales declined 3.9% on a comparable basis due to an accelerated decline in conventional lighting and softer market conditions, most notably in the United States. Comparable sales for the Rest of the World declined 3.6%, mainly due to challenging macro-economic conditions in markets including the Middle East & Turkey.

First half year

The decline in overall sales for the first half of the year mainly reflects the ongoing transformation from conventional to LED lighting in all markets. In addition, some markets were affected by challenging macro-economic conditions. Sales in Europe increased 4.0% on a comparable basis. In the Americas, sales declined 5.4% on a comparable basis, due to an accelerated decline in conventional lighting and softer market conditions. Comparable sales for the Rest of the World declined by 1.0%, mainly driven by Saudi Arabia, partly offset by an improved growth trend in Greater China.

Financial condition

Working capital

<i>in € million, unless otherwise indicated</i>	30 Jun '16	31 Dec '16	31 Mar '17	30 Jun '17
Inventories	1,030	886	982	1,082
Receivables	1,512	1,600	1,472	1,410
Accounts and notes payable	-934	-1,024	-1,034	-1,035
Accrued liabilities	-416	-502	-450	-434
Other	-297	-298	-275	-254
Working capital	895	662	695	769
As % of LTM* sales	12.2%	9.3%	9.8%	10.9%

* LTM: Last Twelve Months

Second quarter

Working capital improved year-on-year by EUR 126 million to EUR 769 million. Working capital represents 10.9% of sales, compared to 12.2% at the end of June 2016, reflecting sustained improvements achieved last year. Compared to previous quarters, working capital has increased due to higher inventories in business groups LED and Home to support growth.

Cash flow analysis

Second Quarter		<i>in € million</i>	First Half Year	
2016	2017		2016	2017
96	111	Income from operations (EBIT)	167	206
68	65	Depreciation and amortization	144	130
-36	-136	Change in working capital	-138	-185
-22	-10	Net capex	-40	-12
-27	-11	Change in provisions	-58	-47
-6	-4	Interest paid	-7	-7
-20	-27	Income taxes paid	-37	-55
7	-15	Other	-49	-56
60	-27	Free cash flow	-18	-26

Second quarter

Free cash flow decreased from EUR 60 million to EUR -27 million, reflecting an increase in inventories to support anticipated growth in the second half of the year. Free cash flow also included a restructuring pay-out of EUR 22 million (Q2 2016: EUR 28 million) and separation costs of EUR 10 million (Q2 2016: EUR 15 million).

First half year

Free cash flow decreased from EUR -18 million to EUR -26 million, mainly due to higher outflow in inventories, partly offset by inflow from accounts payable and proceeds from the sale of real estate.

Net debt

<i>in € million</i>	30 Jun '16	31 Dec '16	31 Mar '17	30 Jun '17
Short-term debt	124	155	146	123
Short-term loans payable to Royal Philips	-	2	-	-
Long-term debt	1,202	1,224	1,214	1,186
Gross debt	1,326	1,381	1,360	1,309
Short-term loans receivable from Royal Philips	69	-	9	-
Cash and cash equivalents	462	1,040	935	612
Net debt	795	341	416	697

Second quarter

Net debt amounted to EUR 697 million, an increase of EUR 281 million compared to the end of March 2017. Net debt increased due to a dividend payment of EUR 157 million and the company's participation in the share disposal by its main shareholder and open market purchases for the long term incentive program of EUR 121 million. Total equity decreased to EUR 2,396 million at the end of the second quarter (Q1 2017: EUR 2,746 million), due to the dividend payment, currency translation differences and the share repurchase. Total equity minus net debt amounted to EUR 1,699 million.

Capital allocation

We continue to exercise strict financial discipline in the generation and use of cash. As part of our capital allocation policy, the company is committed to managing its financial ratios to maintain a financing structure compatible with an investment-grade profile, including disciplined management of balance sheet liabilities. We have an active pension de-risking strategy in which we actively look for opportunities to reduce the risks associated with the defined-benefit plans. As part of this strategy, we intend to contribute approximately USD 150 million to our US pension fund over the period 2017-2019, to further reduce the liabilities and to lower interest expenses going forward. The first contribution of USD 50 million is planned for the third quarter of 2017.

Other information

Appendix A – Condensed Consolidated Financial Statements for the six month period ended June 30, 2017

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 analysts and institutional investors at 10:00 a.m. CET to discuss second quarter results. A live audio webcast of the conference call will be available via the [Philips Lighting Investor Relations website](#).

Financial Calendar 2017

19 October 2017	Third quarter results 2017
26 January 2018	Fourth quarter results 2017

For further information, please contact:

Philips Lighting Investor Relations

Robin Jansen
Tel: +31 6 1594 4569
E-mail: robin.j.jansen@philips.com

Philips Lighting Communications

Elco van Groningen
Tel: +31 6 1086 5519
E-mail: elco.van.groningen@philips.com

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 the [Newsroom](#), [Twitter](#) and [LinkedIn](#). Information for investors can be found on the [Investor Relations](#) page.

Important Information

Forward-Looking Statements and Risks & Uncertainties

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

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

Looking ahead to the second half of 2017, the Group is primarily concerned about the challenging economic conditions, currency headwinds and political uncertainties in the global and domestic markets in which it operates.

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, 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.

Market Abuse Regulation

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

**Unaudited Condensed Consolidated
Interim Financial Statements
of Philips Lighting**

For the six-month period ended June 30, 2017

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Semi-annual report

Introduction

The semi-annual report for the six-month period ended June 30, 2017 of Philips Lighting N.V. ('the Company') consists of the semi-annual Condensed Consolidated Interim Financial Statements, the semi-annual management report and the responsibility statement by the Company's Board of Management.

This section of the semi-annual report contains the Condensed Consolidated Interim Financial Statements and the responsibility statement by the Company's Board of Management. The semi-annual management report is included in the press release for the three-month period ended June 30, 2017. The main risks and uncertainties for the second half of 2017 are also addressed in the press release - please refer to the 'Important Information'.

The information in this semi-annual report is unaudited. The semi-annual Condensed Consolidated Interim Financial Statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2016.

Responsibility statement

The Board of Management of the Company hereby declare that, to the best of their knowledge, the semi-annual report for the six-month period ended June 30, 2017, which has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the semi-annual management report for the six-month period ended June 30, 2017, gives a fair view of the information required pursuant to article 5:25d paragraph 8 and 9 of the Dutch Financial Markets Supervision Act (Wet op het Financieel toezicht).

Eindhoven, July 21, 2017

Board of Management

Eric Rondolat

Stéphane Rougeot

René van Schooten

1. Condensed Consolidated Interim Financial Statements of Philips Lighting

1.1 Condensed consolidated statements of income

Philips Lighting

Condensed consolidated statements of income in mEUR unless otherwise stated

	Q2		January to June	
	2016	2017	2016	2017
Sales	1,734	1,699	3,436	3,389
Cost of sales	(1,055)	(1,024)	(2,130)	(2,048)
Gross margin	679	675	1,306	1,341
Selling expenses	(429)	(437)	(859)	(879)
Research and development expenses	(90)	(91)	(180)	(178)
General and administrative expenses	(66)	(53)	(115)	(108)
Impairment of goodwill	-	-	(2)	-
[5] Other business income	6	18	24	34
Other business expenses	(4)	(1)	(7)	(4)
Income from operations	96	111	167	206
Financial income	-	1	4	4
Financial expenses	(26)	(12)	(47)	(26)
Results relating to investments in associates	1	(1)	1	-
Income before taxes	71	99	125	184
[6] Income tax expense	(14)	(26)	(54)	(50)
Net income	57	73	71	134
Attribution of net income for the period:				
Net income attributable to shareholders of Philips Lighting N.V.	55	74	70	138
Net income attributable to non-controlling interests	2	(1)	1	(4)
[17] Earnings per common share attributable to shareholders				
Weighted average number of ordinary shares outstanding used for calculation (in thousands):				
· basic	150,000	143,949	150,000	146,068
· diluted	150,000	144,450	150,000	146,395
Net income attributable to shareholders per ordinary share in EUR:				
· basic	0.37	0.51	0.47	0.94
· diluted	0.37	0.51	0.47	0.94

1.2 Condensed consolidated statements of comprehensive income

Philips Lighting

Condensed consolidated statements of comprehensive income in mEUR unless otherwise stated

	Q2		January to June	
	2016	2017	2016	2017
Net income for the period	57	73	71	134
Pensions and other post-employment plans:				
· Remeasurements	-	(1)	-	-
· Income tax effect on remeasurements	-	-	-	-
Total of items that will not be reclassified to profit or loss	-	(1)	-	-
Currency translation differences:				
· Net current period change, before tax	46	(139)	(35)	(176)
· Income tax effect	-	-	-	-
Cash flow hedges:				
· Net current period change, before tax	4	(9)	-	(16)
· Income tax effect	(1)	3	-	3
Total of items that are or may be reclassified to profit or loss	49	(145)	(35)	(189)
Other comprehensive income (loss)	49	(146)	(35)	(189)
Total comprehensive income (loss)	106	(73)	36	(55)
Total comprehensive income (loss) attributable to:				
Shareholders of Philips Lighting N.V.	102	(66)	37	(43)
Non-controlling interests	4	(7)	(1)	(12)

1.3 Condensed consolidated balance sheets

Philips Lighting

Condensed consolidated balance sheets in mEUR unless otherwise stated

		December 31, 2016	June 30, 2017
Non-current assets			
[7] Property, plant and equipment:			
· At cost	2,522	2,445	
· Less accumulated depreciation	(1,956)	(1,923)	
		566	522
[8] Goodwill		1,899	1,767
[9] Intangible assets, excluding goodwill:			
· At cost	2,238	2,118	
· Less accumulated amortization	(1,470)	(1,454)	
		768	664
Non-current receivables		25	50
Investments in associates		26	24
Other non-current financial assets		11	13
Deferred tax assets		472	484
Other non-current assets		28	27
Total non-current assets		3,795	3,551
Current assets			
[10] Inventories		886	1,082
Other current assets		52	97
[18] Derivative financial assets		29	6
Income tax receivable		50	55
Receivables:			
· Accounts receivable	1,489	1,333	
· Other current receivables	111	77	
Receivables		1,600	1,410
[11] Assets classified as held for sale		3	3
Cash and cash equivalents		1,040	612
Total current assets		3,660	3,265
Total assets		7,455	6,816

	December 31, 2016	June 30, 2017
Equity		
Owner's net investment		
[12] Shareholders' equity		
Preference shares, nominal value EUR 0.01 per share:		
· Authorized: 300,000,000 shares (2016: 300,000,000 shares)		
· Issued: none		
Ordinary shares, nominal value EUR 0.01 per share:		
· Authorized: 300,000,000 shares		
· Issued and fully paid: 146,500,000 shares (2016: 150,000,000 shares)	2	2
Share premium	2,369	2,281
Retained earnings	139	131
Currency translation differences	190	22
Cash flow hedges	4	(9)
Treasury shares, at cost 4,153,373 shares (2016: nil)		(123)
	2,704	2,304
Non-controlling interest	104	92
Total equity	2,808	2,396
Non-current liabilities		
[13] Long-term debt	1,224	1,186
[14] Long-term provisions	881	838
Deferred tax liabilities	35	34
Other non-current liabilities	150	152
Total non-current liabilities	2,290	2,210
Current liabilities		
[13] Short-term debt	157	123
[18] Derivative financial liabilities	26	11
Income tax payable	57	75
Account and notes payable	1,024	1,035
Accrued liabilities	502	434
[14] Short-term provisions	244	205
[11] Liabilities directly associated with assets classified held for sale	1	1
Other current liabilities	346	326
Total current liabilities	2,357	2,210
Total liabilities and total equity	7,455	6,816

1.4 Condensed consolidated statements of cash flows

Philips Lighting

Condensed consolidated statements of cash flows in mEUR unless otherwise stated

	January to June	
	2016	2017
Cash flows from operating activities		
Net income	71	134
Adjustments to reconcile net income to net cash provided by operating activities:	237	154
· Depreciation, amortization and impairment of non-financial assets	144	130
· Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	6	(1)
· Net gain on sale of assets	-	(32)
· Interest income	(3)	(3)
· Interest expense on debt, borrowings and other liabilities	36	10
· Income tax expense	54	50
Decrease (increase) in working capital:	(138)	(185)
· Decrease (increase) in receivables and other current assets	34	81
· Decrease (increase) in inventories	(55)	(246)
· Increase (decrease) in accounts payable, accrued and other current liabilities	(117)	(20)
Increase (decrease) in non-current receivables, other assets and other liabilities	(56)	4
Increase (decrease) in provisions	(58)	(47)
Interest paid	(7)	(7)
Income taxes paid	(37)	(55)
Other items	10	(12)
Net cash provided by (used for) operating activities	22	(14)
Cash flows from investing activities		
Net capital expenditures:	(40)	(12)
· Additions of intangible assets	(9)	(11)
· Capital expenditures on property, plant and equipment	(33)	(37)
· Proceeds from disposal of property, plant and equipment	2	36
Cash used for derivatives and current financial assets	-	-
Proceeds from other non-current financial assets	-	-
Purchases of other non-current financial assets	(4)	(3)
Purchases of businesses, net of cash acquired	-	(1)
Proceeds from sale of interests in businesses, net of cash disposed of	9	(1)
Net cash provided by (used for) investing activities	(35)	(17)
Cash flows from financing activities		
Funding by (distribution to) Royal Philips	(1,495)	3
Dividends paid	(10)	(157)
Capital contribution from Royal Philips	692	-
Proceeds from issuance (payments) of debt	1,203	(26)
Purchases of treasury shares	-	(203)
Net cash provided by (used for) financing activities	390	(383)
Net cash provided by (used for) continuing operations	377	(414)
Effect of changes in exchange rates on cash and cash equivalents	2	(14)
Cash and cash equivalents at the beginning of the period	83	1,040
Cash and cash equivalents at the end of the period	462	612

1.5 Condensed consolidated statements of changes in equity

Philips Lighting

Condensed consolidated statements of changes in equity in mEUR unless otherwise stated

	Owner's net investment	Share capital	Share premium	Retained earnings	Currency translation differences	Cash flow hedges	Treasury shares at cost	Total share- holders' equity	Non- controlling interests	Equity
Balance as of January 1, 2016	3,384	-	-	-	127	2	-	3,513	103	3,616
Net Income	-	-	-	70	-	-	-	70	1	71
Other comprehensive income (loss)	-	-	-	-	(33)	-	-	(33)	(2)	(35)
Total comprehensive income (loss)	-	-	-	70	(33)	-	-	37	(1)	36
Movement in non-controlling interests	-	-	-	-	-	-	-	-	4	4
Capital contribution from Royal Philips	692	-	-	-	-	-	-	692	-	692
Transfer settlements above book value, net of tax	(555)	-	-	-	-	-	-	(555)	-	(555)
Funding by (distribution to) Royal Philips	(1,229)	-	-	-	-	-	-	(1,229)	-	(1,229)
Share issuance and formation of Philips Lighting	(2,292)	2	2,333	(43)	-	-	-	-	-	-
Balance as of June 30, 2016 ¹⁾	-	2	2,333	27	94	2	-	2,458	106	2,564
Balance as of January 1, 2017	-	2	2,369	139	190	4	-	2,704	104	2,808
Net Income	-	-	-	138	-	-	-	138	(4)	134
Other comprehensive income (loss)	-	-	-	-	(168)	(13)	-	(181)	(8)	(189)
Total comprehensive income (loss)	-	-	-	138	(168)	(13)	-	(43)	(12)	(55)
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-	-
Dividend distributed	-	-	(11)	(146)	-	-	-	(157)	-	(157)
Purchase of treasury shares	-	-	-	-	-	-	(205)	(205)	-	(205)
Cancellation of treasury shares	-	-	(82)	-	-	-	82	-	-	-
Share-based compensation plans	-	-	4	-	-	-	-	4	-	4
Funding by (distribution to) Royal Philips	-	-	1	-	-	-	-	1	-	1
Balance as of June 30, 2017	-	2	2,281	131	22	(9)	(123)	2,304	92	2,396

1) Prior period amounts have been adjusted to reflect a revised split between share premium and retained earnings.

2. Notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended June 30, 2017

All amounts in millions of EUR unless otherwise stated

2.1 Introduction

Philips Lighting N.V. is a public company with limited liability incorporated under the laws of the Netherlands and listed on Euronext Amsterdam under the symbol 'LIGHT'.

As used herein, the term Philips Lighting is used for Philips Lighting N.V. ('the Company') and its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code.

The term Royal Philips is used for Koninklijke Philips N.V. ("KPNV") and its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code.

The Company was incorporated as a private limited liability company on February 1, 2016 and converted into a public company with limited liability on May 31, 2016. The corporate seat of the Company is in Eindhoven, the Netherlands and its registered office is at High Tech Campus 45, 5656 AE Eindhoven. The Company is registered in the Commercial Register of the Chamber of Commerce under number 65220692.

Separation from Royal Philips

On February 1, 2016, Koninklijke Philips N.V. and Philips Lighting Holding B.V. entered into the Separation Agreement and a set of ancillary agreements, together effecting the Separation of their respective businesses and providing a framework for the relationship

between Royal Philips and Philips Lighting thereafter (the 'Separation'). An addendum to the Separation Agreement was entered into on May 4, 2016. Furthermore, the Separation Agreement and ancillary agreements were assigned to the Company prior to May 31, 2016.

The Separation Agreement contains the allocation basis for assets, liabilities, employees and contracts of the former Royal Philips between the new Royal Philips and Philips Lighting. The assets and liabilities that have been allocated to Philips Lighting have been transferred to Philips Lighting, either by way of an asset transfer, demerger, contribution or indirectly through a transfer of the shares in the legal entity in which the relevant asset or liability resided. Conversely, legal entities forming part of Philips Lighting have transferred certain assets and liabilities that were allocated to Royal Philips, to subsidiaries of Royal Philips. Assets and liabilities have been transferred between Royal Philips and Philips Lighting on an 'as is' basis (i.e. net book value) and on a going concern basis.

The Separation was substantially completed on February 1, 2016 with the exception of certain delayed transfers, which were completed by May 31, 2016. The excess between the fair value and the carrying value of the net assets transferred, net of tax, is recorded as an equity contribution from Royal Philips, as this was a transaction under common control.

2.2 Basis of preparation

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

For periods presented prior to completion of the Separation, the Consolidated Financial Statements have been prepared as if the Lighting business had been part of the Company for all such periods, and as if the Company existed as a separate group.

The accounting policies applied in the Condensed Consolidated Interim Financial Statements are consistent with those applied in Chapter 14.6 of the Consolidated Financial Statements for the year ended December 31, 2016.

Other changes

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.

Estimates

The preparation of the Condensed Consolidated Interim Financial Statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from the estimates.

In preparing the Condensed Consolidated Interim Financial Statements, the significant estimates and judgments made by management in applying the accounting policies and the sources of estimation uncertainty were the same as those applied to the Company's Consolidated Financial Statements for the year ended December 31, 2016.

2.3 IFRS accounting standards to be adopted as from 2018 and onwards

Philips Lighting has the following updates to information provided in the Consolidated Financial Statements for the year ended December 31, 2016 in relation to the standards issued but not yet effective that may have a significant impact on Philips Lighting's future Financial Statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Philips Lighting has decided not to adopt IFRS 9 until it becomes mandatory on January 1, 2018. During the first six months of 2017, Philips Lighting has extended the initial assessment of the potential impact of the adoption of IFRS 9 on its Consolidated Financial Statements, as was performed prior to publication of the Company's Consolidated Financial Statements for the year ended December 31, 2016.

Philips Lighting does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale ("AFS") financial assets are immaterial, though accounted for at fair value (or cost where it is assessed to be reasonable approximation of fair value).
- A fair value via other comprehensive income ("FVOCI") election is available for the equity instruments which are currently classified as AFS.
- Philips Lighting does not have equity investments currently measured at fair value through profit or loss ("FVPL").
- Philips Lighting does not have debt instruments currently classified as held-to-maturity.

There is no impact expected on Philips Lighting accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have such liabilities.

The derecognition rules have not changed as these have been transferred from IAS 39 to IFRS 9.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Philips Lighting risk management practices. Philips Lighting already elaborated on the impact of hedge accounting rules under IFRS 9 in its Consolidated Financial Statements for the year ended December 31, 2016. There were no changes since, to this assessment.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Company believes that timing of recognition of the expected credit losses is likely to be accelerated compared to the current IAS 39 requirements for assets in the scope of the IFRS 9 impairment model. If the Company were to adopt the new rules from January 1, 2017, it estimates that it would have to increase its loss allowance for trade receivables. Philips Lighting has not yet determined the quantitative impact from transition to the new standard, which will depend on the amount and characteristics of the open receivable position as of January 1, 2018.

Philips Lighting will use the transition guidance under IFRS 9 and selects not to restate comparatives. This means that in the 2018 financial statements the 2017

comparative figures are not adjusted to reflect the new impairment methodology. The cumulative effect of applying IFRS 9 will be accounted for as an adjustment to the opening balance of equity as of January 1, 2018.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of Philips Lighting disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 Revenue from Contracts with Customers

Philips Lighting will adopt IFRS 15 from January 1, 2018.

During the first six months of 2017, Philips Lighting has extended the initial assessment of the potential impact of the adoption of IFRS 15 on its Consolidated Financial Statements, as was performed prior to publication of the Company's Consolidated Financial Statements for the year ended December 31, 2016. For this assessment, Philips Lighting distinguished between three main streams of revenue based on their current revenue recognition pattern: sale of goods, transactions that have separately identifiable components, and royalty income.

Sale of goods

As previously disclosed, Philips Lighting expects that implementation of the new standard will not have a significant impact on the recognition of revenue from the sale of goods. Philips Lighting is currently in the process of performing and finalizing a detailed assessment of some specific topics, including shipping terms, to ensure systems and processes are updated to reflect the requirements of the new standard.

Transactions that have separately identifiable components

As disclosed in the Company's Consolidated Financial Statements for the year ended December 31, 2016, Philips Lighting found, based on an initial impact assessment, that

by applying the guidance in the new standard for assessing whether a performance obligation is distinct within the context of the contract as well as applying the criteria in the new standard for determining whether the performance obligation is satisfied over time or a point in time, in certain circumstances revenue recognition under the new standard may differ from current practice. Specifically, in instances where, under the guidance, recognition of revenue is currently postponed until all performance obligations under the contract are fulfilled and installation is complete, the Company finds that under the guidance provided by IFRS 15, revenue may instead be recognized over time based on an appropriate measure of progress. The findings from a further impact assessment, performed for a sample of contracts with revenue in the first half of the current financial year, are in line with this assessment. However, similar to current practice, an assessment needs to be made on a contract-by-contract basis.

Philips Lighting continues to assess the impact for all material contracts in scope and uses the insights from this assessment to decide on items such as appropriate measures of progress and ensuring systems and processes are updated to reflect the requirements of the new standard. The contract duration is often limited to less than one year. Therefore, the impact from implementation of the new standard at the time of transition for the contracts assessed so far is deemed not material.

Royalty income

Currently, royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis based on actual or reliably estimated sales made by the licensees. Under IFRS 15, revenues from the license of intellectual property should be recognized based on a right to access the intellectual property or right to use the intellectual property approach. Under the first option, revenue should be recognized over time while under the second option

revenue should be recognized at a point in time.

Philips Lighting disclosed in the Company's Consolidated Financial Statements for the year ended December 31, 2016, that under the new standard, the guidance for recognizing revenue from sale- or usage-based royalties is mostly the same as how the Company currently recognizes revenue from these type of contracts, which represents the majority of license contracts. As a result, Philips Lighting does not expect the implementation of the new standard to have a material impact.

Transition

When first applying the new standard, the Company should apply the standard in full for the current period, including retrospective application to all contracts that were not yet complete at the beginning of that period. Philips Lighting intends to apply the cumulative effect method in the transition, whereby prior period figures are not restated, but instead retained as reported under the previous standards. The cumulative effect of applying IFRS 15 would be accounted for as an adjustment to the opening balance of equity as of January 1, 2018.

Philips Lighting has not yet determined the quantitative impact from the transition to the new standard, which will depend on the number and magnitude of open contracts at the time of transaction and affected by implementation of the new standard.

IFRS 16 Leases

IFRS 16 must be adopted for periods beginning on, or after, January 1, 2019.

Philips Lighting is currently in the process of quantifying the impact on its reported assets and liabilities of the adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which Philips Lighting uses the practical expedients and recognition exemptions, and any additional leases that Philips Lighting

enters into. No significant impact is expected for the Company's finance leases.

Philips Lighting has not yet determined which transition approach to apply. So far, the most significant impact identified is that Philips Lighting will recognize assets and liabilities for its operating leases of real estate, while further assessment is ongoing for other operating leases. As disclosed in Note 27 Contractual Obligations of the Company's 2016 Consolidated Financial Statements for the year ended December 31, 2016, Philips Lighting identified EUR 358 million of off-balance operating lease obligations.

2.4 Disclosure notes

[1] Information by segment and main country

The operating segments are Lamps, LED, Professional and Home. The segments are organized based on the nature of the products and services. 'Other' represents amounts not allocated to the operating segments and mainly comprise of certain costs of group enabling functions and certain costs of the activities of Philips Lighting Innovation.

The following is an overview of Philips Lighting revenues and results by segment:

Philips Lighting

Information on income statement by segment in mEUR unless otherwise stated

	Q2 2016					Q2 2017				
	Sales	Sales including intersegment	Depreciation and amortization ¹⁾	EBITA ²⁾	EBITA as a % of sales	Sales	Sales including intersegment	Depreciation and amortization ¹⁾	EBITA ²⁾	EBITA as a % of sales
Lamps	572	581	(14)	118	21%	458	462	(11)	98	21%
LED	346	376	(4)	28	8%	426	458	(3)	42	10%
Professional	684	681	(12)	45	7%	668	669	(13)	25	4%
Home	127	128	(2)	(32)	(25%)	146	146	(3)	10	7%
Other ³⁾	5	7	(9)	(36)		1	3	(7)	(36)	
Intersegment elimination		(39)					(39)			
Philips Lighting	1,734	1,734	(41)	123	7%	1,699	1,699	(37)	139	8%
Amortization ⁴⁾				(27)					(28)	
Income from operations				96					111	
	January to June 2016					January to June 2017				
	Sales	Sales including intersegment	Depreciation and amortization ¹⁾	EBITA ²⁾	EBITA as a % of sales	Sales	Sales including intersegment	Depreciation and amortization ¹⁾	EBITA ²⁾	EBITA as a % of sales
Lamps	1,187	1,204	(35)	232	20%	955	965	(24)	209	22%
LED	701	762	(9)	48	7%	848	912	(7)	81	10%
Professional	1,285	1,290	(24)	46	4%	1,289	1,291	(25)	34	3%
Home	251	252	(5)	(46)	(18%)	294	295	(5)	10	3%
Other ³⁾	12	14	(17)	(57)		3	8	(13)	(72)	
Intersegment elimination		(86)					(82)			
Philips Lighting	3,436	3,436	(90)	223	6%	3,389	3,389	(74)	262	8%
Amortization ⁴⁾				(56)					(56)	
Income from operations				167					206	

1) Excluding amortization and impairments of acquisition related intangible assets and goodwill

2) Income from operations excluding amortization and impairments of acquisition related intangible assets and goodwill ("EBITA")

3) Considering the nature of other, EBITA as a % of sales for other is not meaningful.

4) Amortization and impairments of acquisition related intangible assets and goodwill

Sales between the segments mainly relate to the supply of goods. The pricing of such transactions is determined on an 'arm's length basis'.

Sales and tangible and intangible assets are reported based on the country of origin as follows:

Philips Lighting

Sales and tangible and intangible assets by main countries in mEUR

	Sales		Tangible and intangible assets	
	January to June 2016	January to June 2017	December 31, 2016	June 30, 2017
Netherlands	219	238	142	137
United States	869	809	2,152	1,943
China	219	230	89	81
India	195	225	25	22
Germany	205	214	12	12
Saudi Arabia	97	87	226	200
Other countries	1,632	1,586	587	558
Total countries	3,436	3,389	3,233	2,953

[2] Financial risk management

The aspects of the Company's financial risk management objectives and policies are consistent with these disclosed in the Consolidated Financial Statements for the year ended December 31, 2016.

[3] Seasonality

The conventional lighting industry generally experiences minor seasonal fluctuations in sales, as the first and fourth quarters of the year (largely correlating with winter in the northern hemisphere) with shorter daylight periods causing higher demand for lighting products than in the second and third quarter of the year. Due to less daylight, lights are turned on for longer periods of time during the day, thus requiring more replacements than in summertime with lower light consumption. In the case of Philips Lighting, this seasonality effect may most strongly influence sales of Lamps.

However, sales are more strongly influenced by other trends, including the overall decline in sales of Lamps and overall increase in LED sales as a result of the transition from conventional lighting technologies to LED lighting technologies, and the timing of specific projects in the case of sales of Professional.

[4] Depreciation, amortization and impairments

Depreciation of property, plant and equipment, amortization of intangible assets and impairments of non-financial assets, are as follows:

Philips Lighting		
Depreciation, amortization and impairments in mEUR		
January to June		
	2016	2017
Property, plant and equipment	(75)	(61)
Internal-use software	(2)	(4)
Other intangible assets	(54)	(55)
Development costs	(13)	(10)
Total	(144)	(130)

Depreciation of property, plant and equipment is primarily included in cost of sales. Amortization of the categories of other intangible assets is reported in selling expenses for brand names and customer

relationships and is reported in cost of sales for technology-based and other intangible assets. Amortization of development costs is included in research and development expenses.

[5] Other business income (expenses)

Other business income (expenses) consists of the following:

Philips Lighting		
Other business income (expenses) in mEUR		
January to June		
	2016	2017
Result on disposal of businesses:		
· Income	-	1
· Expense	(2)	-
Result on disposal of fixed assets:		
· Income	4	31
· Expense	(2)	-
Result on other remaining businesses:		
· Income	20	2
· Expense	(3)	(4)
Other business income (expenses)	17	30
Total other business income	24	34
Total other business expenses	(7)	(4)

Result on disposal of businesses is related to the divestment of non-strategic businesses.

Result on disposal of fixed assets is mostly related to the sale of real estate. It includes a EUR 15 million gain mainly allocated to Lamps and a gain of EUR 15 million in Home.

For the six-month period ended June 30, 2016, the result on other remaining businesses includes a EUR 14 million gain from the sale of trade accounts receivable and inventories to the other shareholder of Philips Lighting Saudi Arabia LLC resulting in a release of related provisions in Professional.

[6] Income taxes

Income tax expense recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full year.

Income tax expense in the first six months of 2017 decreased by EUR 4 million compared to the corresponding period of the previous year, mainly due to non-recurring tax charges related to the separation from Royal Philips recognized last year.

[7] Property, plant and equipment

Property, plant and equipment decreased by EUR 44 million during the six-month period ended June 30, 2017, mainly due to additions of EUR 37 million (six-month period ended June 30, 2016: EUR 41 million) being more than offset by depreciation of EUR 59 million (six-month period ended June 30, 2016: EUR 62 million) and impairment charges of EUR 2 million (six-month period ended June 30, 2016: EUR 13 million).

[8] Goodwill

For information regarding the most recent impairment test of the different cash-generating units, including Professional, reference is made to Note 15, Goodwill in the Company's Consolidated Financial Statements for the year ended December 31, 2016. No events have been identified by management in the first six months of 2017 that required an update of the mentioned impairment tests.

[9] Intangible assets excluding goodwill

The changes in intangible assets excluding goodwill for the six-month period ended June 30, 2017 are summarized as follows:

Philips Lighting

Intangible assets movements schedule in mEUR

	Product development	Technology based	Customer relationships	Brand Names	Software	Other	Total
Book values as of January 1, 2017:							
Cost	179	367	1,280	362	35	15	2,238
Amortization/ impairments	(147)	(259)	(807)	(235)	(16)	(6)	(1,470)
Book value	32	108	473	127	19	9	768
Change in book value:							
Additions	7	1	-	-	3	-	11
Amortization	(7)	(9)	(38)	(7)	(4)	-	(65)
Reclassification	-	2	-	-	-	(2)	-
Impairment	(3)	-	(1)	-	-	-	(4)
Translation differences and other movements	-	(5)	(30)	(9)	-	(2)	(46)
Total changes	(3)	(11)	(69)	(16)	(1)	(4)	(104)
Book values as of June, 2017:							
Cost	176	350	1,203	342	35	12	2,118
Amortization/ impairments	(147)	(253)	(799)	(231)	(17)	(7)	(1,454)
Book value	29	97	404	111	18	5	664

[10] Inventories

Philips Lighting

Inventories in mEUR

	December 31, 2016	June 30, 2017
Raw materials	276	337
Work in progress	26	37
Finished goods	584	708
Total	886	1,082

For the six-month period ended June 30, 2017 a write-down of inventories to realizable value amounted to EUR 8 million. In the six-month period ended June 30, 2016 a reversal of write-down of inventories to realizable value of EUR 5 million was recorded.

[11] Assets classified held for sale

Philips Lighting

Assets and liabilities classified as held for sale in mEUR

	December 31, 2016	June 30, 2017
Assets classified as held for sale	3	3
Liabilities directly associated with assets held for sale	(1)	(1)

Assets classified as held for sale mainly relate to property as well as entities which are anticipated to be sold and their balances mainly comprise of property, plant and equipment and production inventories. The liabilities directly associated with assets held for sale consist mainly of accounts payable.

Impairment of goodwill of EUR 2 million in the six-month period ended June 30, 2016

relates to goodwill allocated to (anticipated) divestments of certain operations which met the IFRS 5 criteria of assets held for sale.

[12] Equity

Share Capital

The Company has an authorized share capital of EUR 6 million, divided into 300,000,000 ordinary shares with a nominal value of EUR 0.01 per share and 300,000,000 preference shares. As of June 30, 2017, the issued share capital of the Company is divided into 146,500,000 ordinary shares with a nominal value of EUR 0.01 per share. No preference shares have been issued.

As of June 30, 2017, 39.99 % (2016: 71.225%) of the issued share capital is held by Royal Philips, 57.17% (2016: 28.775%) is publicly traded at the Euronext Stock exchange in Amsterdam and 2.84% (2016: nil) are held as treasury shares.

Dividend distribution

In May 2016, the Company settled a dividend of EUR 1.10 per ordinary share, representing a total value of EUR 157 million including costs.

Share repurchases and cancellations

In February 2017, the Company acquired for cancellation purposes 3,500,000 ordinary shares for a consideration of EUR 82 million in line with its announcement in January, 2017 that it intends to return up to EUR 300 million to its shareholders over the period 2017-2018, by participating in share disposals by its main shareholder. Cancellation of these shares was completed in May 2017.

In April 2017, an additional 3,500,000 ordinary shares were purchased for a consideration of EUR 101 million. These shares are expected to be cancelled in the third quarter. After cancellation, Royal Philips' shareholding in Philips Lighting is expected to represent 40.97% of Philips Lighting's issued share capital.

In May 2017, the Company started a share buyback program of up to 1,050,000 ordinary shares to cover obligations arising from its long-term incentive employee performance share plans and other employee share purchase plans. As of June 30, 2017, the total number of shares repurchased under this program is 653,373 shares for a total consideration of EUR 22 million.

Treasury shares

On June 30, 2017, the total number of treasury shares amounted to 4,153,373, which were purchased at an average price of EUR 29.56 per share.

[13] Short-term and long-term debt

Short-term and long-term debt are summarized as follows:

Philips Lighting

Short-term and long-term debt in mEUR

	December 31, 2016	June 30, 2017
Facility (EUR)	735	736
Facility (USD)	473	436
Finance lease	17	16
Other Debt	156	121
Total	1,381	1,309
Of which:		
Short-term debt	157	123
Long-term debt	1,224	1,186
Total	1,381	1,309

In May 2016, Philips Lighting entered into a five-year Term Loan Facility agreement. The amounts of the term facility are EUR 740 million and USD 500 million and have been used to replace intra-group financing from Royal Philips. The Term Loan Facility is repayable in five years, but can be repaid at the end of any interest period without penalty.

The Term Loan Facility bears interest at a variable rate based on the relevant applicable EURIBOR and LIBOR respectively with zero floor plus a margin. The margin was 0.55% as of June 30, 2017 (December 31, 2016: 0.75%) and is subject to adjustment based on the level of the Net Leverage Ratio. The Net Leverage Ratio is the ratio of consolidated total net debt as of the test date to

consolidated adjusted EBITDA for the preceding 12 months.

In addition, Philips Lighting entered into a five-year committed Revolving Credit Facility of EUR 500 million in May 2016. As of June 30, 2017, Philips Lighting did not have any amounts outstanding under this facility.

Debt issuance costs of EUR 8 million were paid upon signing the facility in 2016. These costs are being amortized over the term of the facility as part of financial expenses.

The Term and Revolving Credit Facilities Agreement contains customary undertakings. The undertakings include, among others, a negative pledge that provides that (subject to certain exceptions) no member of Philips Lighting may grant security over its assets without the consent of the lenders, and a restriction on subsidiaries of the company (other than the obligors) incurring additional financial indebtedness. There are also restrictions (subject to certain exceptions and thresholds) on engaging in acquisitions, disposals and reorganizations.

The Term and Revolving Credit Facilities Agreement also includes a financial covenant providing that Philips Lighting must maintain a Net Leverage Ratio not greater than 3.00:1.00. As of June 30, 2017 this ratio was 1.02, which is compliant with the conditions of the covenant.

The facilities are guaranteed by the Company and certain subsidiaries of the Company incorporated in Belgium, France, Germany, Hungary, the Netherlands, the People's Republic of China, Poland, Spain, the United Kingdom and the United States.

Other debt includes various local (bank) loans. The main other debt positions are loans of Philips Lighting Saudi Arabia LLC amounting to EUR 54 million (December 31, 2016: EUR 80 million) with a nominal average interest rate of 3.55% and which are denominated in SAR.

Philips Lighting

Movement schedule of short and long term debt in mEUR
2017

	Long Term Debt	Short Term Debt	Total
Balance as of January 1:	1,224	157	1,381
New Borrowings	2	16	18
Repayments	(3)	(41)	(44)
Amortization	1	-	1
Translation differences and other movements	(38)	(9)	(47)
Balance as of June 30:	1,186	123	1,309

[14] Provisions

Provisions are summarized as follows:

Philips Lighting

Provisions in mEUR

	December 31, 2016		June 30, 2017	
	long-term	short-term	long-term	short-term
Provision for post-employment benefits	602	-	568	-
Restructuring related provisions	16	116	17	97
Environmental provisions	101	52	111	30
Product warranty	19	38	17	37
Other provisions	143	38	125	41
Total	881	244	838	205

The change in provisions was mainly attributable to:

- the decrease in restructuring related provisions, which was mainly due to usage, and
- the decrease in provision for post-employment benefits, which was mainly due to usage and FX revaluation.

With regard to post-employment benefits, no significant market fluctuations occurred during the first six months of 2017, which would require re-measurement under IAS 34, Interim Financial Reporting.

[15] Contingent Liabilities

Guarantees

There were no significant changes in guarantees and other letters of support provided by Philips Lighting compared to those disclosed in the Consolidated Financial Statements as at and for the year ended December 31, 2016.

Indemnifications

By way of surety for the fulfilment of Philips Lighting's obligations under the Separation Agreement, including the indemnifications

granted to Royal Philips, certain major subsidiaries of Philips Lighting have provided guarantees to Royal Philips. Conversely, certain major subsidiaries of Royal Philips have provided guarantees to Philips Lighting. Refer to Note 19, Related party transactions.

Environmental remediation

Philips Lighting is subject to environmental laws and regulations. Under these laws and regulations, Philips Lighting may be required to remediate the effects of environmental pollution.

Legal proceedings

Philips Lighting, including a certain number of its current and former subsidiaries, is involved in legal proceedings relating to such matters as product warranty claims, property damage and personal injury.

For information regarding legal, regulatory and arbitration proceedings in which the Company is involved, please refer to note 28 in the Consolidated Financial Statements for the year ended December 31, 2016.

[16] Share-based compensation

In 2017, Philips Lighting introduced the Philips Lighting Long-term Incentive Plan ("LTI Plan"), which was approved by the Annual General Meeting of shareholders on May 9, 2017. Under the Philips Lighting LTI Plan, eligible employees are granted both conditional shares and performance shares. Conditional shares have a three-year cliff vesting period. Vesting is conditional only to the condition that the grantee is still employed with Philips Lighting at the vesting date.

Vesting of performance shares is conditional on the achievement of performance conditions measured over a period of three years. The performance condition measurement is based on three measures, Relative Total Shareholder Return ("TSR") (40% of the shares), Free Cash Flow (40% of the shares) and Sustainability (20% of the shares). In addition, vesting is conditional to

the grantee still being employed with Philips Lighting at the vesting date.

For the Board of Management and certain members of senior management, the LTI Plan consists of performance shares only. Shares are conditionally granted annually.

Until the settlement of the IPO of Philips Lighting in 2016, eligible employees of Philips Lighting as well as members of the Board of Management participated in grants made under the Royal Philips Long-term Incentive Plan. Those employees remain to participate in the Royal Philips LTI Plan until the shares from the last grant in 2016 will vest in 2019. The expense for Philips Lighting, calculated and accounted for in accordance with IFRS 2, equals the recharge from Royal Philips to Philips Lighting. Philips Lighting is not charged for any additional costs upon delivery of shares. No new grants are made or will be made by Royal Philips to employees of Philips Lighting after the settlement of the IPO of Philips Lighting.

In addition to shares awarded under the Philips Lighting LTI Plan, Philips Lighting may in individual cases, such as in the hiring process of members of (senior-) management, also grant restricted shares, which vest gradually over two years, with the first half vesting after one year and the second half vesting after two years.

Under the terms of the employee stock purchase plan ("ESPP") established by Philips Lighting in 2017 in various countries, employees are eligible to purchase a limited number of Philips Lighting shares at discounted prices through payroll withholdings. After the establishment of the Philips Lighting ESPP, employees of Philips Lighting can no longer participate in the Royal Philips ESPP.

Total share-based compensation costs for Philips Lighting were EUR 18 million and EUR 10 million in the six-month period that ended June 30, 2017 and June 30, 2016, respectively. Out of EUR 18 million share-based compensation costs for the six-month

period that ended on June 30, 2017, EUR 4 million costs relate to the Philips Lighting LTI Plan with the remaining relating to the Royal Philips LTI Plan. The expense for the sixth-month period that ended June 30, 2016 fully relates to the Royal Philips LTI Plan.

Philips Lighting LTI Plan

In the first six months of 2017, Philips Lighting granted to its employees 871,578 performance shares, 356,417 conditional shares and 75,288 restricted shares.

Royal Philips LTI Plan

In the first six months of 2017, a total of 1,096,986 vested shares (performance and restricted) were delivered to Philips Lighting employees by Royal Philips.

[17] Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS

Basic EPS is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares outstanding, adjusted for own shares held.

Diluted EPS

Diluted EPS is determined by adjusting the net income attributable to shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprises of performance shares, conditional shares and restricted shares.

[18] Fair value of financial assets and liabilities

The estimated fair value of financial instruments has been determined by Philips Lighting using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by Philips Lighting upon maturity or disposal. The use of market assumptions and/or estimation methods may have a

material effect on the estimated fair value amounts.

For cash and cash equivalents, held-to-maturity investments, current and non-current accounts receivable, non-current loans receivable, accounts and notes payable, interest accrual, short-term and long-term debts, indemnification receivable and payable from and to Royal Philips, the carrying amounts are a reasonable approximation of fair value.

At June 30, 2017 long-term loans and receivables included in other non-current financial assets in the Consolidated balance sheet amounted to EUR 9 million (December 31, 2016: EUR 7 million) and held to maturity investments amounted to EUR 1 million (December 31, 2016: EUR 1 million).

The following hierarchy is applied to classify the financial assets and liabilities:

Level 1

Instruments included in Level 1 are comprised primarily of listed equity investments classified as available-for-sale financial assets, investees and financial assets designated at fair value through profit and loss. The fair value of financial instruments traded in active markets is based on unadjusted quoted prices in active markets for identical assets or liabilities at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant

inputs required to fair value an instrument are based on observable market data, the instrument is included in Level 2. The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield

curves, basis spread and foreign exchange rates.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

Philips Lighting

Fair value hierarchy in mEUR

	Level 1	Level 2	Level 3	Total
Balance as of June 30, 2017				
Derivative financial instruments - assets	-	6	-	6
Fair value through profit and loss - non-current	-	-	2	2
Available-for-sale financial assets	-	-	1	1
Total	-	6	3	9
Derivative financial instruments - liabilities	-	(11)	-	(11)
Total	-	(11)	-	(11)
Balance as of December 31, 2016				
Derivative financial instruments - assets	-	29	-	29
Fair value through profit and loss - non-current	-	-	2	2
Available-for-sale financial assets	-	-	1	1
Total	-	29	3	32
Derivative financial instruments - liabilities	-	(26)	-	(26)
Total	-	(26)	-	(26)

During 2016 under Level 3, an impairment loss on available-for-sale financial assets of EUR 3 million was recognized in the Consolidated statements of income, EUR 1 million has been transferred to other captions of the Consolidated balance sheets and a EUR 2 million fair value gain has been recognized in relation to financial assets at fair value through profit or loss.

Furthermore, transactions during the year relate to the separation from Royal Philips, as well as the Transitional Service Level Agreement, based on which Royal Philips provides Philips Lighting with certain services such as IT, real estate and human resources among others.

An overview of the significant related party transactions and balances is as follows:

[19] Related party transactions

These Condensed Consolidated Interim Financial Statements include transactions with Royal Philips and its group companies that are outside of Philips Lighting. Royal Philips is a related party as it controlled Philips Lighting during the periods presented.

In the normal course of business, Philips Lighting purchases and sells goods and services from/to various parties in which Royal Philips typically holds a 50% or less equity interest and has significant influence. These transactions are generally conducted with terms comparable to transactions with third parties.

Philips Lighting

Related party transactions in mEUR

January to June

	2016	2017
Sales to Royal Philips	17	6
Purchases from Royal Philips	(36)	(11)
Movement in funding from (to)		
Royal Philips	(1,229)	1
Capital contribution	692	-
Brand license fee costs	16	19
Transfer settlement transactions as part of separation	(555)	-
Transfer of pension obligations as part of separation	(607)	-
Transition Service Level Agreement costs charged by Royal Philips	102	25

Philips Lighting

Related party balances in mEUR

	December 31, 2016	June 30, 2017
Accounts receivable from related parties - Royal Philips	7	11
Accounts payable to related parties - Royal Philips	(44)	(41)
Indemnification receivable from Royal Philips	34	30
Indemnification payable to Royal Philips	(95)	(79)
Short-term loans payable to Royal Philips	(2)	-

In addition to these transactions and balances, please refer to note 16 Share-based compensation for disclosures on the accounting for Philips Lighting employees participating in the Royal Philips LTI Plan.

Indemnification receivable from (payable to) Royal Philips mainly relates to the indemnification for tax assets (liabilities) arising after Separation which are attributable to Philips Lighting.

Philips Lighting uses the Philips brand name under the trademark license agreement with Royal Philips.

Appendix B - Reconciliation of non-IFRS Financial Measures

Philips Lighting

Sales growth composition per business in %

Second Quarter

	Compara- ble growth	Currency effects	Consoli- dation changes	Nominal growth
Lamps	(18.2)	0.8	(2.6)	(20.0)
LED	20.9	1.5	0.6	23.0
Professional	(2.7)	0.4	-	(2.3)
Home	15.5	0.8	(1.4)	14.9
Other	(58.6)	(0.1)	-	(58.7)
Total	(1.8)	0.8	(1.0)	(2.0)

Philips Lighting

Sales growth composition per market in %

Second Quarter

	Compara- ble growth	Currency effects	Consoli- dation changes	Nominal growth
Europe	3.1	(1.1)	(0.1)	1.9
Americas	(3.9)	2.3	(0.3)	(1.9)
Rest of the World	(3.6)	1.1	0.1	(2.4)
Global businesses	(4.6)	0.5	(12.0)	(16.1)
Total	(1.8)	0.8	(1.0)	(2.0)

Philips Lighting

Sales growth composition per business in %

January to June

	Compara- ble growth	Currency effects	Consoli- dation changes	Nominal growth
Lamps	(18.0)	1.0	(2.5)	(19.5)
LED	18.8	1.6	0.5	20.9
Professional	(0.3)	0.6	-	0.3
Home	18.0	1.0	(1.6)	17.4
Other	(72.0)	0.2	-	(71.8)
Total	(1.3)	1.0	(1.0)	(1.3)

Philips Lighting

Sales growth composition per market in %

January to June

	Compara- ble growth	Currency effects	Consoli- dation changes	Nominal growth
Europe	4.0	(1.0)	(0.1)	2.9
Americas	(5.4)	2.9	(0.3)	(2.8)
Rest of the World	(1.0)	1.0	0.1	0.1
Global businesses	(6.8)	0.6	(11.8)	(18.0)
Total	(1.3)	1.0	(1.0)	(1.3)

Philips Lighting

Adjusted EBITA to Income from operations (or EBIT) in mEUR

Second Quarter

	Philips Lighting	Lamps	LED	Professional	Home	Other
2017						
Adjusted EBITA	174	95	45	48	12	(26)
Restructuring	(30)	3	(3)	(23)	(2)	(5)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(5)	-	-	-	-	(5)
EBITA	139	98	42	25	10	(36)
Amortization	(28)	-	(1)	(26)	(1)	-
Income from operations (or EBIT)	111	98	41	(1)	9	(36)
2016						
Adjusted EBITA	161	117	29	46	(10)	(21)
Restructuring	(23)	1	(1)	(1)	(22)	-
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(15)	-	-	-	-	(15)
EBITA	123	118	28	45	(32)	(36)
Amortization	(27)	(1)	(1)	(24)	(1)	-
Income from operations (or EBIT)	96	117	27	21	(33)	(36)

Philips Lighting

Adjusted EBITA to Income from operations (or EBIT) in mEUR

January to June

	Philips Lighting	Lamps	LED	Professional	Home	Other
2017						
Adjusted EBITA	317	209	84	61	13	(50)
Restructuring	(41)	-	(3)	(27)	(3)	(8)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(14)	-	-	-	-	(14)
EBITA	262	209	81	34	10	(72)
Amortization	(56)	-	(2)	(52)	(1)	(1)
Income from operations (or EBIT)	206	209	79	(18)	9	(73)

2016

Adjusted EBITA	282	242	49	52	(22)	(39)
Restructuring	(41)	(10)	(1)	(5)	(24)	(1)
Acquisition-related charges	(1)	-	-	(1)	-	-
Incidental items	(17)	-	-	-	-	(17)
EBITA	223	232	48	46	(46)	(57)
Amortization	(56)	(2)	(2)	(50)	(2)	-
Income from operations (or EBIT)	167	230	46	(4)	(48)	(57)

Philips Lighting

Adjusted Gross Margin in mEUR unless otherwise stated

	Q2		January to June	
	2016	2017	2016	2017
Sales	1,734	1,699	3,436	3,389
Cost of Sales	(1,055)	(1,024)	(2,130)	(2,048)
Gross margin	679	675	1,306	1,341
Restructuring	8	3	21	6
Acquisition-related charges	-	-	-	-
Incidental items	-	-	-	-
Adjusted gross margin	687	678	1,327	1,347
Adjusted gross margin %	39.6%	39.9%	38.6%	39.7%

Philips Lighting

Adjusted R&D costs in mEUR unless otherwise stated

	Q2		January to June	
	2016	2017	2016	2017
R&D expenses	(90)	(91)	(180)	(178)
Restructuring	8	8	7	9
Acquisition-related charges	-	-	-	-
Incidental items	-	-	-	-
Adjusted R&D expenses	(82)	(83)	(173)	(169)
Adjusted R&D expenses %	(4.7%)	(4.9%)	(5.0%)	(5.0%)

Philips Lighting

Adjusted SG&A costs in mEUR unless otherwise stated

	Q2		January to June	
	2016	2017	2016	2017
Selling expenses	(429)	(437)	(859)	(879)
G&A expenses	(66)	(53)	(115)	(108)
SG&A expenses	(495)	(490)	(974)	(987)
Restructuring	7	19	13	26
Acquisition-related charges	-	-	1	-
Incidental items	15	5	17	13
Adjusted SG&A expenses	(473)	(466)	(943)	(948)
Adjusted SG&A expenses %	(27.3%)	(27.4%)	(27.4%)	(28.0%)

Philips Lighting

Adjusted indirect costs in mEUR unless otherwise stated

	Q2		January to June	
	2016	2017	2016	2017
Selling expenses	(429)	(437)	(859)	(879)
G&A expenses	(66)	(53)	(115)	(108)
R&D expenses	(90)	(91)	(180)	(178)
Indirect costs	(585)	(581)	(1,154)	(1,165)
Restructuring	15	27	20	35
Acquisition-related charges	-	-	1	-
Incidental items	15	5	17	13
Adjusted indirect costs	(555)	(549)	(1,116)	(1,117)
Adjusted indirect costs %	(32.0%)	(32.3%)	(32.5%)	(33.0%)

Philips Lighting

Composition of cash flows in mEUR

	January to June	
	2016	2017
Cash flows from operating activities	22	(14)
Cash flows from investing activities	(35)	(17)
Cash flows before financing activities	(13)	(31)
Cash flows from operating activities	22	(14)
Net capital expenditures:	(40)	(12)
· Additions of intangible assets	(9)	(11)
· Capital expenditures on property, plant and equipment	(33)	(37)
· Proceeds from disposal of property, plant and equipment	2	36
Free cash flows	(18)	(26)

Philips Lighting

Working capital to total assets in mEUR

	December 31,	June 30,
	2016	2017
Working capital (WoCa)	662	769
Eliminate liabilities comprised in WoCa:		
Accounts and notes payable	1,024	1,035
Accrued liabilities	502	434
Derivative financial liabilities	26	11
Income tax payable	57	75
Other current liabilities	346	326
Include assets not comprised in WoCa:		
Non-current assets	3,795	3,551
Cash and cash equivalents	1,040	612
Assets classified as held for sale	3	3
Total assets	7,455	6,816

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

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
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
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