PHILIPS Lighting

Press release

October 19, 2017

Philips Lighting reports comparable sales growth of 1.3% and continued improvement in operational profitability

Third quarter 2017 highlights[1]

- Sales of EUR 1,684 million, with an increase in comparable sales of 1.3%
- Total LED-based sales growth of 22%, now representing 68% of total sales (Q3 2016: 56%)
- Adjusted EBITA of EUR 176 million (Q3 2016: EUR 175 million)
- Adjusted EBITA margin improvement of 50 basis points to 10.5% (Q3 2016: 10.0%)
- Net income of EUR 110 million (Q3 2016: EUR 51 million)
- Free cash flow of EUR -5 million (Q3 2016: EUR 164 million)

Eindhoven, the Netherlands – Philips Lighting (Euronext: LIGHT), the world leader in lighting, today announced the company's third quarter results 2017. "In line with our objectives, Philips Lighting returned to comparable sales growth in the quarter. For the first time in our transformation, the growth of LED and connected lighting systems & services more than offset the decline of our conventional business," said CEO Eric Rondolat. "At the same time, we continued to improve our profitability, with LED and connected lighting systems & services being substantial contributors. This demonstrates the successful execution of our strategy as we remain on track to reach our outlook for 2017."

Outlook

Achieving positive comparable sales growth in the third quarter is an important step in the improvement of the growth profile of the company. We are on track to 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. In addition, we expect a strong free cash flow in the fourth quarter based on a substantial reduction in inventories.

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

Financial review

Third quarter 2016	Third quarter 2017	change	*in € million, except percentages*	First nine months 2016	First nine months 2017	change
1,745	**1,684**	**-3.5%**	**Sales**	**5,181**	**5,073**	**-2.1%**
		1.3%	*Comparable sales growth*			*-0.4%*
		-3.5%	*Effects of currency movements*			*-0.5%*
		-1.3%	*Consolidation and other changes*			*-1.1%*
692	674	-2.7%	Adjusted gross margin	2,019	2,021	0.1%
39.7%	**40.0%**		**Adj. gross margin (as % of sales)**	**39.0%**	**39.8%**	
-467	-437		Adj. SG&A expenses	-1,410	-1,386	
-81	-85		Adj. R&D expenses	-254	-254	
-548	-522	4.7%	Adj. indirect costs	-1,664	-1,640	1.4%
31.4%	**31.0%**		**Adj. indirect costs (as % of sales)**	**32.1%**	**32.3%**	
175	176	0.7%	Adjusted EBITA	457	492	7.7%
10.0%	**10.5%**		**Adjusted EBITA margin (%)**	**8.8%**	**9.7%**	
-55	14		Adjusted items	-114	-40	
120	191	59.0%	EBITA	343	452	31.8%
93	**161**	**73.0%**	**Income from operations (EBIT)**	**260**	**367**	**41.0%**
-12	-10		Net financial income/expense	-55	-32	
-30	-42		Income tax expense	-84	-91	
51	**110**	**114.8%**	**Net income**	**122**	**244**	**99.7%**
164	-5		Free cash flow	146	-30	
0.37	0.80		Basic EPS (€)	0.83	1.74	
34,251	33,422		Employees (FTE)	34,251	33,422	

Third quarter

Sales amounted to EUR 1,684 million. On a comparable basis, the increase was 1.3%, driven by significant growth in LED, Professional and Home. 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. Solid performance in business groups LED, Professional and Home drove total LED-based sales growth of 22%. Total LED-based sales now represent 68% of total sales compared to 56% in the same quarter last year. As a percentage of sales, the adjusted gross margin improved by 30 basis points to 40.0%, largely driven by procurement savings and increased productivity, partly offset by price erosion. Adjusted indirect costs as a percentage of sales decreased by 40 basis points to 31.0%. Adjusted EBITA increased to EUR 176 million, resulting in a 50 basis point improvement of the Adjusted EBITA margin to 10.5%. Restructuring and incidental items had a positive impact of EUR 14 million. Restructuring costs were EUR 9 million, while incidental items mainly related to a real estate gain of EUR 21 million in Lamps. Net income increased from EUR 51 million to EUR 110 million. Free cash flow amounted to EUR -5 million which included a contribution to the US pension fund of EUR 42 million (USD 50 million) and proceeds related to the sale of real estate of EUR 21 million. Working capital increased as inventories increased in Home in anticipation of the high season, whereas inventories increased in several geographies where sales were softer than anticipated.

Business highlights for the third quarter

- **Professional:** Reinforcing our continued leadership in connected lighting systems, we formed an alliance with American Tower Corporation to develop smart light poles, integrating multiple 4G/5G base stations with connected street lights to enable telecommunication services from multiple providers.
- **Professional:** Demonstrating our continued leadership in architectural lighting systems, we installed numerous projects globally, including the Binhe Yellow River Bridge in China and the Galata Tower in Turkey. Our architectural lighting delivers stunning light shows as well as energy savings of up to 75% in comparison to conventional lighting and reduced operational costs when combined with control systems.
- **Professional:** CBRE Group in Spain became the first to use the Philips SlimBlend LED luminaire, facilitating energy savings of up to 50% in comparison to conventional lighting and improving employee wellness. This sleek luminaire can be integrated with our connected lighting systems for offices, retail, and hospitality and demonstrates our ability to innovate in LED products.
- **Home:** We unveiled Philips Hue Entertainment, further strengthening Philips Hue's position as the world's leading connected lighting system for the home. The free software update, available from December, synchronizes lighting with gaming, movies and music to improve the end-user entertainment experience. The introduction follows pilots with The Voice, Syfy and Live Nation.
- **Home:** We expanded our partnership with Amazon to give consumers a new option to easily set up their connected home lighting systems with Echo Plus, Amazon's new smart home hub. While supplies last, customers who purchase an Echo Plus in introductory markets receive a Philips Hue white bulb that can be switched on and off, dimmed and brightened using Echo Plus's voice commands.
- **Home:** Philips Hue also further strengthened its position in China, having JD.com join as a 'Friends of Hue' partner, enabling integration between Philips Hue and JD.com's DingDong smart home speaker. We also introduced Philips Hue luminaires designed for the Chinese market to cater to local needs.

Operational performance by business group

Lamps

Third quarter				First nine months		
2016	2017	change	*in € million, unless otherwise indicated*	2016	2017	change
570	423	-25.8%	Sales	1,757	1,378	-21.6%
		-20.2%	*Comparable sales growth (%)*			*-18.7%*
120	85	-29.4%	Adjusted EBITA	362	294	-18.8%
21.1%	20.0%		Adjusted EBITA margin (%)	20.6%	21.3%	
110	107		EBITA	342	317	
110	107		Income from operations (EBIT)	340	316	

Third quarter

Sales amounted to EUR 423 million, a comparable decline of 20.2%, which partly reflects a high base of comparison in the third quarter of 2016. Adjusted EBITA decreased to EUR 85 million, due to the sales decline, partly offset by procurement and productivity savings. The Adjusted EBITA margin remained robust at 20.0%. Reported EBITA included a real estate gain of EUR 21 million in the third quarter.

LED

Third quarter 2016	2017	change	*in € million, unless otherwise indicated*	First nine months 2016	2017	change
377	416	10.4%	Sales	1,078	1,264	17.2%
		14.3%	*Comparable sales growth (%)*			*17.2%*
40	45	11.5%	Adjusted EBITA	89	129	44.5%
10.6%	10.7%		Adjusted EBITA margin (%)	8.3%	10.2%	
40	44		EBITA	88	125	
39	43		Income from operations (EBIT)	85	122	

Third quarter

Sales increased by 14.3% to EUR 416 million, on a comparable basis, driven by significant volume growth, partly offset by lower selling prices and stronger growth in more affordable products. Growth was primarily driven by LED lamps, while growth in LED electronics slowed down. All regions contributed to growth, although countries with high LED penetration rates showed lower 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 10 basis points to 10.7%.

Professional

Third quarter 2016	2017	change	*in € million, unless otherwise indicated*	First nine months 2016	2017	change
664	685	3.2%	Sales	1,949	1,974	1.3%
		7.0%	*Comparable sales growth (%)*			*2.2%*
42	69	64.5%	Adjusted EBITA	94	130	38.1%
6.3%	10.1%		Adjusted EBITA margin (%)	4.8%	6.6%	
1	60		EBITA	47	93	
-24	35		Income from operations (EBIT)	-28	17	

Third quarter

Sales amounted to EUR 685 million, an increase of 7.0% on a comparable basis. Europe and the Rest of the World 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 300 basis points. Adjusted EBITA increased by 64.5% to EUR 69 million. The Adjusted EBITA margin increased by 380 basis points to 10.1%, mainly driven by operational leverage, mix improvements and cost reductions.

Home

Third quarter				First nine months		
2016	2017	change	*in € million, unless otherwise indicated*	2016	2017	change
130	158	21.6%	Sales	381	453	18.8%
		28.1%	*Comparable sales growth (%)*			*21.4%*
-1	2	324.5%	Adjusted EBITA	-23	16	170.0%
-0.8%	1.4%		Adjusted EBITA margin (%)	-6.0%	3.6%	
1	3		EBITA	-45	13	
0	-1		Income from operations (EBIT)	-48	9	

Third quarter

Sales amounted to EUR 158 million, an increase of 28.1% on a comparable basis, mainly driven by significant growth in Home Systems, and solid growth in all regions. Home Systems continued to invest in innovation, marketing and supply chain, to support future growth. Adjusted EBITA increased to EUR 2 million, improving the Adjusted EBITA margin by 220 basis points to 1.4%, driven by operational leverage and a continued focus on product cost innovation.

Other

Third quarter

Adjusted EBITA amounted to EUR -24 million in the quarter (Q3 2016: EUR -26 million). Adjusted EBITA in Other represents amounts not allocated to the operating segments and is comprised of certain costs related to group enabling functions as well as central R&D activities to drive innovation. EBITA amounted to EUR -23 million (Q3 2016: EUR -32 million), including restructuring costs of EUR 1 million. Other incidental items not part of the Adjusted EBITA included a charge of EUR 3 million for separation costs and a net gain of EUR 6 million related to the release of a provision originating from the separation.

Sales by market

Third quarter					First nine months			
2016	2017	Change	CSG*	*in € million, except percentages*	2016	2017	change	CSG*
530	557	5.0%	5.6%	Europe	1,575	1,631	3.6%	4.5%
560	514	-8.3%	-3.2%	Americas	1,664	1,587	-4.7%	-4.7%
527	490	-7.1%	-0.4%	Rest of the World	1,556	1,520	-2.3%	-0.8%
128	124	-2.9%	11.7%	Global businesses	386	335	-13.0%	-0.7%
1,745	**1,684**	**-3.5%**	**1.3%**	**Total**	**5,181**	**5,073**	**-2.1%**	**-0.4%**

* *CSG: Comparable Sales Growth*

Third quarter

Comparable sales in Europe increased by 5.6%, driven by solid performance in, among others, the Benelux, Germany and Iberia. In the Americas, sales declined by 3.2% on a comparable basis due to an accelerated decline in conventional lighting and softer market conditions, most notably in the United States. Comparable sales for the Rest of the World remained flat at -0.4%, with a solid performance in countries such as India, Russia and Central Asia and Greater China, offset by continued challenging market conditions in Saudi Arabia.

Financial condition

Working capital

in € million, unless otherwise indicated	30 Sep '16	31 Dec '16	30 Jun '17	30 Sep '17
Inventories	999	886	1,082	1,137
Receivables	1,485	1,600	1,410	1,447
Accounts and notes payable	-935	-1,024	-1,035	-1,015
Accrued liabilities	-471	-502	-434	-452
Other	-269	-298	-254	-280
Working capital	**809**	**662**	**769**	**837**
As % of LTM* sales	11.2%	9.3%	10.9%	11.9%

* *LTM: Last Twelve Months*

Third quarter

Working capital increased year-on-year by EUR 28 million to EUR 837 million. Working capital represents 11.9% of sales, compared to 11.2% at the end of September 2016. Working capital increased as inventories increased in Home in anticipation of the high season, whereas in several geographies inventories increased as sales were softer than anticipated.

Cash flow analysis

Third quarter			First nine months	
2016	2017	*in € million*	2016	2017
93	161	Income from operations (EBIT)	260	367
72	67	Depreciation and amortization	216	197
87	-107	Change in working capital	-51	-292
-21	3	Net capex	-61	-9
7	-76	Change in provisions	-51	-123
-14	-4	Interest paid	-21	-11
-36	-29	Income taxes paid	-73	-84
-24	-21	Other	-73	-77
164	**-5**	**Free cash flow**	**146**	**-30**

Third quarter

Free cash flow decreased to EUR -5 million this quarter from EUR 164 million in the same period last year. This is mainly driven by the changes in working capital in both quarters. This quarter, working capital increased as an improvement in the company's growth profile and a build-up in Home ahead of the high season in the fourth quarter led to higher inventories. In addition, inventories increased in several geographies where sales were softer than anticipated. In the same period last year, working capital was lowered as the company still experienced negative growth. Free cash flow includes a contribution of EUR 42 million (USD 50 million) to the company's pension fund in the US to reduce liabilities and to lower future interest expenses which was partly offset by proceeds related to sale of real estate of EUR 21 million. Free cash flow included a restructuring pay-out of EUR 22 million (Q3 2016: EUR 23 million) and separation costs of EUR 8 million (Q3 2016: EUR 19 million).

Net debt

in € million	30 Sep '16	31 Dec '16	30 Jun '17	30 Sep '17
Short-term debt	151	155	123	139
Short-term loans payable to Royal Philips	-	2	-	-
Long-term debt	1,194	1,224	1,186	1,176
Gross debt	1,345	1,381	1,309	1,314
Short-term loans receivable from Royal Philips	30	-	-	-
Cash and cash equivalents	701	1,040	612	605
Net debt	**614**	**341**	**697**	**709**

Third quarter

Net debt amounted to EUR 709 million, an increase of EUR 12 million compared to the end of June 2017. Total equity increased to EUR 2,432 million at the end of the third quarter (30 June 2017: EUR 2,396 million), as a result of an increase in net income, partly offset by currency translation differences and the purchase of shares to cover obligations arising from the company's long-term incentive performance share plan and other employee share plans. Total equity minus net debt amounted to EUR 1,723 million.

Other information

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

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

For further information, please contact:

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About Philips Lighting

Philips Lighting (Euronext: LIGHT), the world leader in lighting products, systems and services, delivers innovations that unlock business value, providing rich user experiences that help improve lives. Serving professional and consumer markets, we lead the industry in leveraging the Internet of Things to transform homes, buildings and urban spaces. With 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 and the semi-annual report for the first half of 2017.

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

Market and Industry Information

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

Non-IFRS Financial Measures

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

Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided. All reported data are unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2016.
As part of the financial reporting improvement process, the presentation of the line item "Results relating to investments in associates" was moved into the subtotal "Income before taxes" in the Condensed consolidated statements of income. This change did not impact the income of operations or financial position.

Market Abuse Regulation

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

Appendix A – Financial statement information

A. CONDENSED CONSOLIDATED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated

	Q3		January to September	
	2016	2017	2016	2017
Sales	1,745	1,684	5,181	5,073
Cost of sales	(1,097)	(1,015)	(3,227)	(3,063)
Gross margin	**648**	**669**	**1,954**	**2,010**
Selling expenses	(423)	(405)	(1,282)	(1,284)
Research and development expenses	(86)	(85)	(266)	(264)
General and administrative expenses	(63)	(43)	(178)	(151)
Impairment of goodwill	-	(1)	(2)	(1)
Other business income	21	31	45	65
Other business expenses	(4)	(6)	(11)	(10)
Income from operations	**93**	**161**	**260**	**367**
Financial income	2	2	6	6
Financial expenses	(14)	(12)	(61)	(38)
Results relating to investments in associates	-	-	1	-
Income before taxes	**81**	**151**	**206**	**335**
Income tax expense	(30)	(42)	(84)	(91)
Net income	**51**	**110**	**122**	**244**
Attribution of net income for the period:				
Net income attributable to shareholders of Philips Lighting N.V.	55	113	125	251
Net income attributable to non-controlling interests	(4)	(3)	(3)	(8)

B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

	Q3		January to September	
	2016	**2017**	**2016**	**2017**
Net income for the period	**51**	**110**	**122**	**244**
Pensions and other post-employment plans:				
Remeasurements	-	(1)	-	(1)
Income tax effect on remeasurements	-	-	-	-
Total of items that will not be reclassified to profit or loss	**-**	**(1)**	**-**	**(1)**
Currency translation differences:				
Net current period change, before tax	(34)	(64)	(69)	(240)
Income tax effect	-	-	-	-
Cash flow hedges:				
Net current period change, before tax	1	-	1	(16)
Income tax effect	-	-	-	3
Total of items that are or may be reclassified to profit or loss	**(33)**	**(64)**	**(68)**	**(253)**
Other comprehensive income (loss)	**(33)**	**(65)**	**(68)**	**(254)**
Total comprehensive income (loss)	**18**	**45**	**54**	**(10)**
Total comprehensive income (loss) attributable to:				
Shareholders of Philips Lighting N.V.	23	51	60	8
Non-controlling interests	(5)	(6)	(6)	(18)

C. CONDENSED CONSOLIDATED BALANCE SHEET

in millions of EUR unless otherwise stated

	December 31, 2016	September 30, 2017
Non-current assets		
Property, plant and equipment	566	498
Goodwill	1,899	1,723
Intangible assets, excluding goodwill	768	621
Non-current receivables	25	49
Investments in associates	26	19
Other non-current financial assets	11	13
Deferred tax assets	472	490
Other non-current assets	28	25
Total non-current assets	**3,795**	**3,439**
Current assets		
Inventories	886	1,137
Other current assets	52	117
Derivative financial assets	29	8
Income tax receivable	50	52
Receivables	1,600	1,447
Assets classified as held for sale	3	10
Cash and cash equivalents	1,040	605
Total current assets	**3,660**	**3,377**
Total assets	**7,455**	**6,816**
Equity		
Shareholders' equity	2,704	2,347
Non-controlling interest	104	85
Total equity	**2,808**	**2,432**
Non-current liabilities		
Long-term debt	1,224	1,176
Long-term provisions	881	775
Deferred tax liabilities	35	32
Other non-current liabilities	150	155
Total non-current liabilities	**2,290**	**2,137**
Current liabilities		
Short-term debt	157	139
Derivative financial liabilities	26	13
Income tax payable	57	94
Account and notes payable	1,024	1,015
Accrued liabilities	502	452
Short-term provisions	244	181
Liabilities directly associated with assets classified held for sale	1	1
Other current liabilities	346	350
Total current liabilities	**2,357**	**2,246**
Total liabilities and total equity	**7,455**	**6,816**

Appendix B – Reconciliation of non-IFRS Financial Measures

Sales growth composition in %

	Third quarter			
2017 vs 2016	comparable growth	currency effects	consolidation and other changes	nominal growth
Lamps	-20.2	-2.9	-2.7	-25.8
LED	14.3	-4.2	0.3	10.4
Professional	7.0	-3.6	-0.2	3.2
Home	28.1	-3.7	-2.8	21.6
Other	-65.7	-7.1	0.0	-72.8
Total	**1.3**	**-3.5**	**-1.3**	**-3.5**

	January to September			
2017 vs 2016	comparable growth	currency effects	consolidation and other changes	nominal growth
Lamps	-18.7	-0.3	-2.5	-21.6
LED	17.2	-0.4	0.4	17.2
Professional	2.2	-0.8	-0.1	1.3
Home	21.4	-0.6	-2.0	18.8
Other	-70.6	-1.5	0.0	-72.1
Total	**-0.4**	**-0.5**	**-1.1**	**-2.1**

	Third quarter			
2017 vs 2016	comparable growth	currency effects	consolidation and other changes	nominal growth
Europe	5.6	-0.5	-0.1	5.0
Americas	-3.2	-4.8	-0.3	-8.3
Rest of the World	-0.4	-5.7	-1.0	-7.1
Global businesses	11.7	-1.2	-13.4	-2.9
Total	**1.3**	**-3.5**	**-1.3**	**-3.5**

	January to September			
2017 vs 2016	comparable growth	currency effects	consolidation and other changes	nominal growth
Europe	4.5	-0.9	-0.1	3.6
Americas	-4.7	0.3	-0.3	-4.7
Rest of the World	-0.8	-1.2	-0.3	-2.3
Global businesses	-0.7	0.0	-12.4	-13.0
Total	**-0.4**	**-0.5**	**-1.1**	**-2.1**

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

	Philips Lighting	Lamps	LED	Professional	Home	Other
July to September 2017						
Adjusted EBITA	176	85	45	69	2	(24)
Restructuring	(9)	2	(1)	(9)	-	(1)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	23	21	-	-	-	3
EBITA	191	107	44	60	3	(23)
Amortization	(30)	-	(1)	(25)	(3)	-
Income from operations (or EBIT)	**161**	**107**	**43**	**35**	**(1)**	**(23)**
July to September 2016						
Adjusted EBITA	175	120	40	42	(1)	(26)
Restructuring	(49)	(10)	-	(41)	2	-
Acquisition-related charges	-	-	-	-	-	-
Incidental items	(6)	-	-	-	-	(6)
EBITA	120	110	40	1	1	(32)
Amortization	(27)	-	(1)	(25)	(1)	-
Income from operations (or EBIT)	**93**	**110**	**39**	**(24)**	**-**	**(32)**

	Philips Lighting	Lamps	LED	Professional	Home	Other
January to September 2017						
Adjusted EBITA	492	294	129	130	16	(76)
Restructuring	(49)	2	(4)	(36)	(3)	(8)
Acquisition-related charges	-	-	-	-	-	-
Incidental items	9	21	-	-	-	(12)
EBITA	452	317	125	93	13	(96)
Amortization	(86)	(1)	(3)	(76)	(4)	(1)
Income from operations (or EBIT)	**367**	**316**	**122**	**17**	**9**	**(97)**
January to September 2016						
Adjusted EBITA	457	362	89	94	(23)	(65)
Restructuring	(90)	(20)	(1)	(46)	(22)	(1)
Acquisition-related charges	(1)	-	-	(1)	-	-
Incidental items	(23)	-	-	-	-	(23)
EBITA	343	342	88	47	(45)	(89)
Amortization	(83)	(2)	(3)	(75)	(3)	-
Income from operations (or EBIT)	**260**	**340**	**85**	**(28)**	**(48)**	**(89)**

PHILIPS Lighting

Adjusted Gross Margin in millions of EUR unless otherwise stated

	July to September 2016	July to September 2017	January to September 2016	January to September 2017
Sales	1,745	1,684	5,181	5,073
Cost of Sales	(1,097)	(1,015)	(3,227)	(3,063)
Gross Margin	**648**	**669**	**1,954**	**2,010**
Restructuring	44	5	65	11
Acquisition-related charges	-	-	-	-
Incidental items	-	-	-	-
Adjusted Gross Margin	**692**	**674**	**2,019**	**2,021**
Adjusted Gross Margin %	39.7%	40.0%	39.0%	39.8%

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

	July to September 2016	July to September 2017	January to September 2016	January to September 2017
Selling expenses	(423)	(405)	(1,282)	(1,284)
G&A expenses	(63)	(43)	(178)	(151)
SG&A expenses	**(486)**	**(448)**	**(1,460)**	**(1,435)**
Restructuring*	-	7	13	32
Acquisition-related charges	-	-	1	-
Incidental items	19	3	36	16
Adjusted SG&A expenses	**(467)**	**(437)**	**(1,410)**	**(1,386)**
Adjusted SG&A expenses %	-26.8%	-26.0%	-27.2%	-27.3%

* This line includes impairment of acquisition related intangible assets which originate from restructuring initiatives.

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

	July to September 2016	July to September 2017	January to September 2016	January to September 2017
R&D expenses	**(86)**	**(85)**	**(266)**	**(264)**
Restructuring	5	1	12	10
Acquisition-related charges	-	-	-	-
Incidental items	-	-	-	-
Adjusted R&D expenses	**(81)**	**(85)**	**(254)**	**(254)**
Adjusted R&D expenses %	-4.6%	-5.0%	-4.9%	-5.0%

Appendix C – Financial glossary

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