

March 21, 2018

IR notification – Changes to Financial Reporting*

As of January 1, 2018, Philips Lighting has made some changes to its financial reporting driven by:

1. organizational changes in the business groups to further align the organizational structure with the strategy
2. changes to the allocation methods of shared costs and to the threshold for other incidental items
3. minor changes to the presentation of the income statement and cash flow statement

These changes have no impact on the company's outlook for 2018 nor on its objectives for 2019.

1. Organizational changes in the BGs to further align the organizational structure with the strategy

The market trend of both professionals and consumers switching from buying lamps and luminaires to integrated LED luminaires is accelerating. Our strategic ambition is to increase our market share and leadership position in this segment. As part of this strategy, we have implemented the following changes to our business portfolio:

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

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

2. Changes to the allocation method of shared costs and lowering of the threshold for other incidental items

As part of Philip Lighting's ongoing transformation process, the company has identified opportunities to further simplify its processes and harmonize the way shared costs are allocated to the various businesses. In addition, the company has lowered the threshold for other incidental items (as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA) from EUR 20 million to EUR 5 million.

3. Minor changes to the presentation of the income statement and the cash flow statement

As Philips Lighting budgets, manages and monitors Selling and G&A expenses in an integral way, the company has decided to present these costs in one line item in the income statement as of January 1, 2018.

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

*This document 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 our consolidated financial statements in the annual report 2017.

Changes to financial reporting 2016 and 2017

	Full year 2017 Sales (in EUR m)				Full year 2017 Adjusted EBITA (in EUR m)			
	Reported sales	Change threshold ¹	Other changes	Restated sales	Reported Adj. EBITA	Change threshold ¹	Other changes	Restated Adj. EBITA
Lamps	1,820	-	(32)	1,788	370	(10)	(15)	345
LED	1,703	-	198	1,902	174	(3)	17	188
Professional	2,755	-	(5)	2,750	225	(2)	6	229
Home	684	-	(177)	508	36	(15)	(9)	12
Other	3	-	15	18	(106)	-	1	(106)
Philips Lighting	6,965	-	-	6,965	699	(30)	-	669

	Full year 2016 Sales (in EUR m)				Full year 2016 Adjusted EBITA (in EUR m)			
	Reported sales	Change threshold ¹	Other changes	Restated sales	Reported Adj. EBITA	Change threshold ¹	Other changes	Restated Adj. EBITA
Lamps	2,333	-	(30)	2,303	472	-	(7)	465
LED	1,518	-	191	1,708	142	-	7	148
Professional	2,683	-	6	2,689	145	(12)	4	136
Home	559	-	(181)	379	(20)	-	(3)	(22)
Other	22	-	14	36	(94)	-	(1)	(93)
Philips Lighting	7,115	-	-	7,115	645	(12)	-	633

- ¹ The threshold for items to be classified as other incidental items that impact the Adjusted EBITA (margin), has been lowered from EUR 20 million to EUR 5 million. These incidentals were already addressed in the quarterly financial reports:
- Q1 2016: EUR 12 million gain on the sale of receivables impacting Professional
 - Q1 2017: EUR 15 million gain on sale of real estate impacting Lamps, LED and Professional
 - Q2 2017: EUR 15 million gain on sale of real estate impacting Home

Full year CSG and Adjusted EBITA margin

	CSG				Adjusted EBITA margin			
	2017		2016		2017		2016	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	-18.6%	-19.0%	-15.8%	-16.0%	20.3%	19.3%	20.2%	20.2%
LED	13.8%	12.8%	16.1%	16.6%	10.2%	9.9%	9.4%	8.7%
Professional	4.6%	4.1%	-0.5%	-0.7%	8.2%	8.3%	5.4%	5.0%
Home	² 26.5%	41.1%	11.0%	6.9%	5.2%	2.3%	-3.6%	-5.9%
Philips Lighting	0.5%	0.5%	-2.4%	-2.4%	10.0%	9.6%	9.1%	8.9%

- ² Following the portfolio changes, the weight of the fast-growing Home Systems increased within Home. Home Systems had a significantly lower weight in 2016 compared to 2017.

Reported and restated key figures per segment 2017

Sales per segment (in millions of EUR)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	498	490	458	449	423	415	442	433
LED	422	468	426	477	416	465	440	492
Professional	621	621	668	669	685	685	781	775
Home	148	106	146	100	158	115	232	186
Other	1	5	1	4	1	4	(1)	5
Philips Lighting	1,690	1,690	1,699	1,699	1,684	1,684	1,892	1,892

Comparable sales growth (in %)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	-17.9%	-18.1%	-18.2%	-18.6%	-20.2%	-20.7%	-18.4%	-18.7%
LED	16.7%	15.2%	20.9%	19.6%	14.3%	13.1%	5.1%	5.1%
Professional	2.5%	2.0%	-2.7%	-3.0%	7.0%	6.5%	11.2%	10.4%
Home	20.6%	32.7%	15.5%	25.3%	28.1%	45.1%	37.3%	53.9%
Philips Lighting	-0.8%	-0.8%	-1.8%	-1.8%	1.3%	1.3%	3.0%	3.0%

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3 Following the portfolio changes, the weight of the fast-growing Home Systems increased within Home.

Adjusted EBITA (in millions of EUR)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	114	100	95	93	85	82	76	71
LED	39	40	45	50	45	50	46	48
Professional	13	13	48	52	69	71	95	94
Home	3	1	12	(6)	2	-	20	18
Other	(27)	(26)	(26)	(30)	(24)	(26)	(30)	(23)
Philips Lighting	142	127	174	159	176	176	207	207

Adjusted EBITA margin (in %)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	22.9%	20.4%	20.7%	20.7%	20.0%	19.7%	17.3%	16.3%
LED	9.2%	8.5%	10.6%	10.5%	10.7%	10.7%	10.4%	9.8%
Professional	2.1%	2.1%	7.2%	7.7%	10.1%	10.4%	12.2%	12.1%
Home	2.0%	0.5%	8.2%	-6.0%	1.4%	-0.4%	8.5%	9.5%
Philips Lighting	8.4%	7.5%	10.2%	9.4%	10.5%	10.5%	10.9%	10.9%

EBITA (in millions of EUR)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	111	108	98	96	107	104	33	27
LED	39	43	42	48	44	49	44	47
Professional	9	11	25	28	60	62	87	86
Home	1	(1)	10	7	3	-	18	16
Other	(38)	(37)	(36)	(40)	(23)	(25)	(63)	(57)
Philips Lighting	122	122	139	139	191	191	119	119

Income from operations (EBIT) in millions of EUR

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	111	108	98	95	107	104	33	27
LED	38	42	41	47	43	48	43	46
Professional	(17)	(15)	(1)	3	35	37	44	43
Home	-	(2)	9	7	(1)	(3)	18	16
Other	(38)	(38)	(36)	(40)	(23)	(25)	(64)	(57)
Philips Lighting	94	94	111	111	161	161	75	75

Reported and restated key figures per segment 2016

Sales per segment (in millions of EUR)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	615	607	572	565	570	564	576	567
LED	355	400	346	392	377	425	440	491
Professional	601	603	684	686	664	665	734	734
Home	124	81	127	82	130	86	178	130
Other	7	10	5	9	4	5	6	12
Philips Lighting	1,702	1,702	1,734	1,734	1,745	1,745	1,934	1,934

Comparable sales growth (in %)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	-14.5%	-14.9%	-16.8%	-16.9%	-13.3%	-13.4%	-18.5%	-18.8%
LED	28.8%	29.3%	15.6%	16.4%	11.5%	12.5%	11.3%	11.2%
Professional	-2.1%	-2.4%	3.8%	3.5%	-3.8%	-4.0%	0.1%	-0.1%
Home	10.7%	2.0%	14.3%	6.1%	11.0%	7.9%	8.8%	9.9%
Philips Lighting	-1.3%	-1.3%	-1.5%	-1.5%	-3.3%	-3.3%	-3.2%	-3.2%

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Within Home, Home Systems had a significantly lower weight in 2016 compared to 2017.

Adjusted EBITA (in millions of EUR)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	125	122	117	113	120	121	110	108
LED	20	19	29	31	40	43	53	55
Professional	6	(3)	46	49	42	43	51	47
Home	(12)	(10)	(10)	(12)	(1)	(2)	3	1
Other	(18)	(20)	(21)	(19)	(26)	(31)	(29)	(23)
Philips Lighting	121	108	161	161	175	175	188	188

Adjusted EBITA margin (in %)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	20.3%	20.1%	20.5%	20.1%	21.1%	21.4%	19.1%	19.1%
LED	5.6%	4.9%	8.4%	7.8%	10.6%	10.1%	12.0%	11.2%
Professional	1.0%	-0.6%	6.7%	7.1%	6.3%	6.5%	6.9%	6.5%
Home	-9.7%	-12.3%	-7.9%	-14.2%	-0.8%	-2.2%	1.7%	0.8%
Philips Lighting	7.1%	6.4%	9.3%	9.3%	10.0%	10.0%	9.7%	9.7%

EBITA (in millions of EUR)

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	114	112	118	114	110	111	93	91
LED	20	20	28	29	40	43	52	55
Professional	1	4	45	48	1	2	46	42
Home	(14)	(12)	(32)	(34)	1	-	(1)	(3)
Other	(21)	(23)	(36)	(34)	(32)	(37)	(54)	(49)
Philips Lighting	100	100	123	123	120	120	136	136

Income from operations (EBIT) in millions of EUR

	Q1		Q2		Q3		Q4	
	Reported	Restated	Reported	Restated	Reported	Restated	Reported	Restated
Lamps	113	110	117	113	110	111	93	91
LED	19	19	27	28	39	42	51	54
Professional	(25)	(22)	21	23	(24)	(23)	19	17
Home	(15)	(12)	(33)	(34)	-	(1)	-	(3)
Other	(21)	(23)	(36)	(34)	(32)	(37)	(54)	(49)
Philips Lighting	71	71	96	96	93	93	109	109

Condensed consolidated statements of income

In millions of EUR

	As reported		After restatements	
	January to December		January to December	
	2016	2017	2016	2017
Sales	7,115	6,965	7,115	6,965
¹ Cost of sales	(4,438)	(4,264)	(4,436)	(4,262)
¹ Gross margin	2,677	2,701	2,679	2,704
¹ ² Selling, general and administrative expenses	(1,998)	(1,959)	(1,993)	(1,954)
¹ Research and development expenses	(353)	(354)	(361)	(362)
Impairment of goodwill	(2)	(1)	(2)	(1)
Other business income	60	72	60	72
Other business expenses	(15)	(18)	(15)	(18)
Income from operations	369	441	369	441
Financial income	11	8	11	8
Financial expenses	(78)	(51)	(78)	(51)
Results relating to investments in associates	2	-	2	-
Income before taxes	304	398	304	398
Income tax expense	(119)	(117)	(119)	(117)
Net income	185	281	185	281

- ¹ Changes are the result of harmonizing the way shared costs are allocated to the various businesses.
- ² As Philips Lighting budgets, manages and monitors Selling and G&A expenses in an integral way, the company has decided to present these costs in one line item in the income statement as of January 1, 2018.

Cash flows from operating activities

In millions of EUR

	As reported		After restatements	
	January to December		January to December	
	2016	2017	2016	2017
Net income	185	281	185	281
Adjustments to reconcile net income to net cash provided by operating activities:	463	397	630	578
• Depreciation, amortization and impairment of non-financial assets	291	286	291	286
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	7	-	7	-
• Net gain on sale of assets	(12)	(53)	(12)	(53)
• Interest income	(6)	(7)	(6)	(7)
① • Interest expense on debt, borrowings and other liabilities	48	41	40	24
• Income tax expense	119	117	119	117
② • Additions to (releases of) provisions	-	-	175	201
• Other items	16	14	16	10
Decrease (increase) in working capital:	119	(33)	119	(33)
③ • Decrease (increase) in receivables	(27)	74	(1)	97
• Decrease (increase) in inventories	104	(124)	104	(124)
④ • Increase (decrease) in accounts payable	42	17	(52)	55
② • Increase (decrease) in other current assets, accrued and other current liabilities	-	-	69	(61)
Increase (decrease) in non-current receivables, other assets and other liabilities	(66)	7	(66)	7
⑤ Utilizations of provisions	(71)	(101)	(238)	(282)
Interest paid	(29)	(15)	(29)	(15)
Income taxes paid	(96)	(101)	(96)	(101)
Net cash provided by (used for) operating activities	505	435	505	435

- ① Pension interest expense related to non-cash movements in provisions is now presented in the “additions to (releases of) provisions” line.
- ② New (additional) lines in the statements of cash flows.
- ③ Previously named "Decrease (increase) in receivables and other current assets". This line included movements from other current assets which are now presented in “increase (decrease) in other current assets, accrued and other current liabilities”.
- ④ Previously named "Increase (decrease) in accounts payable, accrued and other current liabilities". This line included movements from accrued liabilities and other current liabilities which are now presented in “increase (decrease) in other current assets, accrued and other current liabilities”.
- ⑤ Previously named "Increase (decrease) in provisions". This line included additions and releases of provisions, which are now presented in “additions to (release of) provisions”.

Cash flows from investing activities and from financing activities did not change. As of the first quarter of 2018, Philips Lighting will provide cash flow statements per quarter.

Other information

For further information, please contact:

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Forward-Looking Statements

This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Philips Lighting and certain of the plans and objectives of Philips Lighting with respect to these items. By their nature, these statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these statements. For a discussion of factors that could cause future results to differ from such forward-looking statements, see the Risk factors and risk management chapter included in the Annual Report 2017.