

## Philips Lighting reports continued improvement in operational profitability and cash flow in second quarter

### Second quarter 2016 highlights

- Total LED-based sales growth of 25%, representing 53% of total sales
- Seventh consecutive quarter of year-on-year improvement in operational profitability
  - adjusted EBITA of €161 million (Q2 2015: €139 million)
  - adjusted EBITA margin of 9.3% (Q2 2015: 7.5%)
- Net income of €57 million, includes separation costs and brand license fee not applicable in 2015
- Free cash flow of €60 million (Q2 2015: €-82 million)

### Half year 2016 highlights

- Continued improvement in operational profitability
  - adjusted EBITA of €282 million (HY 2015: €249 million)
  - adjusted EBITA margin of 8.2% (HY 2015: 7.0%)
- Net income of €71 million, includes separation costs and brand license fee not applicable in 2015

**Eindhoven, the Netherlands** – Philips Lighting (Euronext Amsterdam: LIGHT) today announced second quarter and half-year results 2016. “Philips Lighting delivered satisfactory performance, posting a seventh consecutive quarter of improved operational profitability and free cash flow in the second quarter. Our businesses all progressed versus last year, performing in line with their strategic objectives,” said Eric Rondolat, CEO. “I am satisfied to see our strategy being successfully executed. The conventional Lamps Business’ profitability remains well positioned despite the anticipated sales decline. Our total LED-based sales grew by 25% in the quarter and our systems and services businesses saw double-digit growth, driven by our continued extension of lighting into the Internet of Things. As a result, our LED-based activities now represent over half of total sales. We are pleased with these results, demonstrating the successful execution of our strategy. Our team remains focused on our journey of continuous improvement.”

### Key figures

Second Quarter				First Half Year		
2015	2016	Change	<i>in € million, unless otherwise indicated</i>	2015	2016	change
1,849	1,734	-6.2%	Sales	3,576	3,436	-3.9%
		-1.5%	Comparable sales growth			-1.4%
685	687	0.3%	Adjusted gross margin	1,321	1,327	0.5%
139	161	16.2%	Adjusted EBITA	249	282	13.4%
128	123	-3.9%	Reported EBITA	209	223	6.7%
100	96	-4.0%	Income from operations (EBIT)	155	167	7.7%
95	57	-40.0%	Net income	125	71	-43.2%
% of sales						
37.0%	39.6%		Adjusted gross margin	36.9%	38.6%	
7.5%	9.3%		Adjusted EBITA margin	7.0%	8.2%	
-82	60		Free cash flow	74	-18	
	0.37		Basic EPS (€)		0.47	
39,784	35,104		Employees (FTE)	39,784	35,104	

## CFO appointment

The company also announced the appointment of Stéphane Rougeot as Chief Financial Officer, effective September 1, 2016. Mr. Rougeot succeeds Rene van Schooten, Business Group Leader Lamps, who in addition to his current role, held the position on an interim basis for nine months. Mr. Rougeot joins from Technicolor (formerly known as Thomson), where he served as Deputy CEO and President Technology Business.

## Outlook

Our results in the second quarter of 2016 support our confidence that we are on the right track towards a return to positive comparable sales growth in the course of 2016. Our team remains focused on improving year-on-year operational profitability.

We expect restructuring and acquisition-related charges for the year 2016 to be in line with 1.5-2.0% of sales as previously indicated and anticipate such charges to total approximately €60 million in the third quarter, mainly driven by manufacturing footprint rationalization. In addition, separation costs are expected to total approximately €20 million for the third quarter.

## Financial review

Second Quarter			in € million, except percentages	First Half Year		
2015	2016	change		2015	2016	change
<b>1,849</b>	<b>1,734</b>	<b>-6.2%</b>	<b>Sales</b>	<b>3,576</b>	<b>3,436</b>	<b>-3.9%</b>
		-1.5%	Comparable sales growth			-1.4%
		-4.6%	Effects of currency movements			-2.5%
<b>685</b>	<b>687</b>	<b>0.3%</b>	<b>Adjusted gross margin</b>	<b>1,321</b>	<b>1,327</b>	<b>0.5%</b>
-488	-473		Adjusted SG&A expenses	-953	-943	
-87	-82		Adjusted R&D expenses	-176	-173	
<b>-575</b>	<b>-555</b>	<b>3.5%</b>	<b>Adjusted indirect costs</b>	<b>-1,129</b>	<b>-1,116</b>	<b>1.2%</b>
<b>139</b>	<b>161</b>	<b>15.8%</b>	<b>Adjusted EBITA</b>	<b>249</b>	<b>282</b>	<b>13.3%</b>
-11	-38		Restructuring and other incidentals	-40	-59	
<b>128</b>	<b>123</b>	<b>-3.9%</b>	<b>Reported EBITA</b>	<b>209</b>	<b>223</b>	<b>6.7%</b>
<b>100</b>	<b>96</b>	<b>-4.0%</b>	<b>Income from operations (EBIT)</b>	<b>155</b>	<b>167</b>	<b>7.7%</b>
-4	-26		Net financial income/expense	-6	-43	
-2	-14		Income tax expense	-25	-54	
<b>95</b>	<b>57</b>	<b>-40.0%</b>	<b>Net income</b>	<b>125</b>	<b>71</b>	<b>-43.2%</b>
37.0%	39.6%		Adjusted gross margin (%)	36.9%	38.6%	
-31.1%	-32.0%		Adjusted indirect costs (%)	-31.6%	-32.5%	
7.5%	9.3%		Adjusted EBITA margin (%)	7.0%	8.2%	

## Second quarter

Sales amounted to €1,734 million. Comparable sales growth of -1.5% shows an improvement compared to last year, confirming Philips Lighting's path to growth. As expected, Lamps reported an increased decline versus the first quarter 2016 due to the transition from conventional to LED lighting. LED grew at double-digits, but growth slowed compared to second quarter 2015 due to a large promotion activity during the second quarter last year and lower than expected sell-out in the Americas. Comparable sales growth of Professional increased compared to second quarter 2015, driven by healthy growth in Professional North America. Home showed a double-digit comparable sales growth increase, driven by growth in both consumer luminaires and home systems.

Adjusted gross margin increased to €687 million, driven mainly by procurement and productivity savings and partly offset by price erosion. As a percentage of sales, adjusted gross margin improved to 39.6%. Adjusted indirect costs decreased to €555 million driven by cost reductions, despite the payment of a €10 million brand license fee to Royal Philips following the separation of our business earlier this year. As a percentage of sales, adjusted indirect costs increased to 32.0%. Adjusted EBITA improved to €161 million as a result of higher gross margin and lower indirect costs. Adjusted EBITA margin reached 9.3%.

Restructuring and other incidentals amounted to €38 million. Restructuring costs were €23 million, due to the shift of some restructuring activities to the third quarter 2016. Separation costs amounted to €15 million.

The decrease in net income to €57 million was primarily attributable to an increase in net finance expenses and higher income tax charges. Higher net finance expenses were related to the new financing structure of the company following its separation from Royal Philips earlier this year. Income tax expense increased by €12 million, as 2015 was favorably impacted by a one-off non-taxable income event recognized in the second quarter of that year.

## First half year

Steady progress was made on overall results. Comparable sales growth of -1.4% shows an upwards trend and confirms the path to growth. Adjusted gross margin increased to €1,327 million driven by procurement and productivity savings, partly offset by price erosion. Adjusted indirect costs decreased to €1,116 million driven by cost reductions, partly offset by the payment of a €16 million brand license fee to Royal Philips. Adjusted EBITA improved to €282 million driven by higher gross margin and lower indirect costs, partly offset by unfavorable currency effects. Restructuring and other incidentals amounted to a total of €59 million. Restructuring costs were €40 million, while separation costs and acquisition-related charges amounted to €17 million and €2 million respectively. The decrease of net income to €71 million was primarily attributable to an increase of net finance expenses and a higher effective tax rate of 43.5% mainly due to non-recurring tax charges related to the separation from Royal Philips recognized in the first half of 2016.

## Business highlights

- **LED:** Accelerating the transition to LED lighting, Philips Lighting introduced Philips CorePro LED PLC, the first LED retrofit range for compact fluorescent lamps, targeted at the professional market to replace 150 million CFLni lamps across Europe, delivering 60% energy savings. The replacement range for halogen linear lamps will be further expanded by Philips CorePro dimmable R7S LED, offering a compact form that optimally fits with existing luminaires in hotels, restaurant and cafes, enabling over 80% energy savings compared to traditional products.
- **Professional / Arena:** Philips Lighting expanded its stadium lighting portfolio with the installation of Africa's first Philips ArenaVision LED pitch lighting in Egypt's Cairo Stadium and is partnering with Amsterdam Arena in the Netherlands to introduce a new combination of Philips ArenaVision LED pitch lighting with movable dynamic color spots. Philips Lighting is responsible for the pitch lighting of over 65% of stadiums involved in major international sports events.

- **Professional / Public:** In Rio de Janeiro, Philips Lighting completed three major public LED lighting projects, at the port area of Porto Maravilha and the highways of Arco Metropolitano and Elevado de Joá, enabling increased safety and reduced energy and maintenance costs.
- **Professional / Office:** Smartworld chose Philips Lighting Power over Ethernet (PoE) connected office lighting system in combination with the Cisco Digital Ceiling framework to transform its Dubai headquarters into a state-of-the-art intelligent building, enabling staff to enjoy highly personalized services that improve productivity, safety and comfort.
- **Home:** The Philips Hue ecosystem was strengthened by the introduction of Philips Hue White Ambiance, providing every shade of white light, and the Philips Hue 2.0 app that provides new remote control features via iOS or Android devices.

## Operational performance by business group

### Lamps

Second Quarter			in € million, unless otherwise indicated	First Half Year		
2015	2016	change		2015	2016	change
727	572	-21.4%	Sales	1,454	1,187	-18.4%
		-16.8%	Comparable sales growth (%)			-15.6%
129	117	-9.0%	Adjusted EBITA	252	242	-4.0%
17.7%	20.5%		Adjusted EBITA margin (%)	17.3%	20.4%	
122	118	-3.3%	EBITA	228	232	1.8%

#### Second quarter

Sales amounted to €572 million with comparable sales growth of -16.8%. Adjusted EBITA decreased to €117 million, while the adjusted EBITA margin improved to 20.5%. The margin increase was driven mainly by manufacturing footprint rationalization, procurement and productivity savings. During the quarter, the ceramics operation in the Netherlands was successfully divested.

#### First half year

Sales decreased to €1,187 million with comparable sales growth of -15.6%. Adjusted EBITA decreased to €242 million, however the adjusted EBITA margin improved to 20.4%. This was driven mainly by manufacturing footprint rationalization, procurement and productivity savings. Restructuring costs and other incidental charges in the first half amounted to €10 million, related mainly to manufacturing footprint rationalization.

### LED

Second Quarter			in € million, unless otherwise indicated	First Half Year		
2015	2016	change		2015	2016	change
314	346	10.2%	Sales	589	701	19.0%
		15.6%	Comparable sales growth (%)			21.9%
9	29	212.1%	Adjusted EBITA	14	49	253.6%
2.9%	8.4%		Adjusted EBITA margin (%)	2.4%	7.0%	
9	28	197.5%	EBITA	12	48	289.8%

## Second quarter

Sales were €346 million, resulting in comparable sales growth of 15.6%. The growth rate was lower compared to 2015 due to a large promotion activity during the second quarter 2015 and lower than expected sell-out in the Americas. Other regions showed robust growth. Adjusted EBITA increased to €29 million, primarily attributable to procurement savings and operational leverage partly offset by price erosion. The adjusted EBITA margin showed a good progression at 8.4%.

## First half year

Sales amounted to €701 million, resulting in robust comparable sales growth of 21.9%. Adjusted EBITA improved to €49 million driven mainly by procurement and productivity savings, and operational leverage, offset by price erosion. The adjusted EBITA margin increased to 7.0%.

## Professional

Second Quarter			in € million, unless otherwise indicated	First Half Year		
2015	2016	change		2015	2016	change
689	684	-0.8%	Sales	1,299	1,285	-1.1%
		3.8%	Comparable sales growth (%)			0.9%
39	46	18.6%	Adjusted EBITA	51	52	1.2%
5.7%	6.7%		Adjusted EBITA margin (%)	3.9%	4.0%	
33	45	37.2%	EBITA	38	46	19.8%

## Second quarter

Sales amounted to €684 million. Comparable sales growth of 3.8% was driven mainly by growth in the Americas and the continued penetration of LED-based activities, while difficult market conditions in the Middle East & Turkey experienced in the first quarter continued to have a negative impact in the second quarter. Adjusted EBITA increased to €46 million related mainly to operational leverage and procurement savings, partly offset by write downs on bad debt in Middle East & Turkey. The adjusted EBITA margin improved to 6.7%.

## First half year

Sales amounted to €1,285 million. Comparable sales growth of 0.9% was affected by difficult market conditions in the Middle East & Turkey while the North America business returned to growth. Adjusted EBITA remained stable at €52 million, despite write downs on bad debt in Middle East & Turkey. The adjusted EBITA margin was stable at 4.0%. Restructuring and other incidental charges amounted to €6 million.

## Home

Second Quarter			in € million, unless otherwise indicated	First Half Year		
2015	2016	change		2015	2016	change
116	127	9.5%	Sales	228	251	10.1%
		14.3%	Comparable sales growth (%)			12.5%
-19	-10	45.5%	Adjusted EBITA	-33	-22	30.9%
-16.4%	-7.9%		Adjusted EBITA margin (%)	-14.5%	-8.8%	
-18	-32	-79.7%	EBITA	-35	-46	-31.4%

## Second quarter

Sales in the second quarter increased to €127 million driven by comparable sales growth of 14.3%. Growth was supported by both the consumer luminaires and home systems businesses. All regions contributed to growth. Adjusted EBITA loss improved to €-10 million, primarily attributable to operational leverage and procurement savings. Restructuring and other incidental charges amounted to €22 million, related mainly to the rationalization of our footprint in Belgium and China.

## First half year

Sales increased to €251 million, driven by comparable sales growth of 12.5%. Adjusted EBITA loss improved to €-22 million, primarily attributable to cost reductions and operational leverage. The adjusted EBITA margin improved significantly to -8.8%. Restructuring and other incidental charges amounted to €24 million, mainly related to the rationalization of our manufacturing footprint in Belgium and China.

## Other

Adjusted EBITA for other amounted to €-21 million in the quarter (Q2 2015: €-19 million) primarily originating from enabling functions, which are not reflected in the financial results of the business groups. For the first half year, adjusted EBITA amounted to €-39 million (HY 2015: €-35 million). The decrease in adjusted EBITA was primarily attributable to seasonality and phasing of costs throughout the year.

## Sales by market

Second Quarter				in € million, except percentages	First Half Year			
2015	2016	Change	CSG*		2015	2016	change	CSG*
519	512	-1.3%	0.0%	Europe	1,080	1,045	-3.2%	-2.2%
599	549	-8.3%	-2.1%	Americas	1,137	1,104	-2.9%	0.3%
596	543	-8.9%	-1.8%	Rest of the World	1,103	1,029	-6.7%	-2.5%
135	130	-3.7%	-3.0%	Global businesses	256	258	0.8%	-0.4%
<b>1,849</b>	<b>1,734</b>	<b>-6.2%</b>	<b>-1.5%</b>	<b>Total</b>	<b>3,576</b>	<b>3,436</b>	<b>-3.9%</b>	<b>-1.4%</b>

\* CSG: Comparable Sales Growth

## Financial condition

### Working capital

in € million, unless otherwise indicated	31 Dec 2015	31 Mar 2016	30 Jun 2016
Inventories	988	1,010	1,030
Receivables	1,599	1,512	1,512
Accounts and notes payable	-1,051	-912	-934
Accrued liabilities	-459	-404	-416
Other	-245	-341	-297
<b>Working capital</b>	<b>832</b>	<b>865</b>	<b>895</b>
As % of LTM* sales	11.1%	11.6%	12.2%

\* LTM: Last Twelve Months

Working capital in the first half year increased by €63 million to €895 million, mainly related to seasonal patterns within inventories, receivables and payables.

## Cash flow analysis

Second Quarter			First Half Year	
2015	2016		2015	2016
in € million				
100	96	Income from operations (EBIT)	155	167
74	68	Depreciation and amortization	147	146
-159	-36	Change in working capital	-80	-138
-37	-22	Net capex	-65	-40
-34	-27	Change in provisions	-57	-58
1	-6	Interest paid	-1	-7
-10	-20	Income taxes paid	-17	-37
-17	7	Other	-8	-51
-82	60	Free cash flow	74	-18

### Second quarter

Free cash flow improved to €60 million, primarily attributable to lower cash out on working capital, provisions and net capex, partly offset by increased interest payments due to a new financing structure and higher income taxes. Free cash flow in the quarter was negatively impacted by separation costs of €15 million.

### First half year

Free cash flow amounted to €-18 million as the result of an increase in income from operations (EBIT) and a lower net capex level which was offset by higher working capital cash out and higher income taxes. Free cash flow in the half year was negatively impacted by €45 million for de-risking of US pensions and separation costs of €17 million.

## Net debt

<i>in € million</i>	31 Dec 2015	31 Mar 2016	30 Jun 2016
Short-term loans payable to Royal Philips	-	438	-
Short-term debt	86	95	124
Long-term debt	2	18	1,202
Gross debt	88	551	1,326
Short-term loans receivable from Royal Philips	-	-	-69
Cash and cash equivalents	-83	-353	-462
<b>Net debt</b>	<b>5</b>	<b>198</b>	<b>795</b>

### Second quarter

The increase of net debt to €795 million is related to the company's separation from Royal Philips and the initial public offering. In May 2016, the company raised US\$500 million and €740 million through external debt facility, replacing short-term funding from Royal Philips. Group equity decreased to €2,564 million at the end of the second quarter (Q1 2016: €3,121 million), primarily in connection with the separation from Royal Philips.

## First half year

The increase of net debt in the first half year is related to the separation from Royal Philips and the initial public offering in May 2016. As a result, the company now has its own financing structure, including an external debt facility of US\$500 million and €740 million. At the end of June 2016, net debt amounted to €795 million.

Group equity decreased to €2,564 million at the end of the first half-year (December 31, 2015: €3,616 million), primarily in connection with the separation from Royal Philips.

## Other information

Appendix A – Condensed Consolidated Interim Financial Statements for the six month period ended 30 June 2016

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 Rene van Schooten, CFO, will host a conference call for investors and analysts at 10:00 a.m. CEST to discuss the results. A live audio webcast of the conference call will be available via the Philips Lighting Investor Relations website: <http://www.lighting.philips.com/main/investor/>

## Financial Calendar 2016

20 October 2016

Third quarter results 2016

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## About Philips Lighting

Philips Lighting (Euronext Amsterdam ticker: LIGHT), a global leader in lighting products, systems and services, delivers innovations that unlock business value, providing rich user experiences that help improve lives. Serving professional and consumer markets, we lead the industry in leveraging the Internet of Things to transform homes, buildings and urban spaces. With 2015 sales of EUR 7.5 billion, we have approximately 36,000 employees in over 70 countries. News from Philips Lighting is located at <http://www.newsroom.lighting.philips.com>



## Important Information

### Forward-Looking Statements and Risks & Uncertainties

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

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, impact of the Group’s operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see “Risk Factors” in the Group’s prospectus, dated 16 May 2016 (the “**Prospectus**”) for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in this semi-annual report.

Looking ahead to the second half of 2016, 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, EBITDA, adjusted EBITDA and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Group’s business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see “Operating and Financial Review—Non-IFRS Financial Measures” in the Prospectus.

### Presentation

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

### Market Abuse Regulation

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

# **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF PHILIPS LIGHTING**

For the six month period ended 30 June 2016

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## Semi-annual report

### Introduction

The semi-annual report for the six month period ended 30 June 2016 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 responsibility statement by the Company's Board of Management. The semi-annual management report is included in the quarterly report for the three month period ended 30 June 2016 and the main risks and uncertainties for the second half of 2016 are addressed in this document - please refer to the 'Important Information' as included in this document.

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 Combined Financial Statements for the year ended 31 December 2015.

### Responsibility statement

The Board of Management of the Company hereby declares that to the best of their knowledge the semi-annual report for the six month period ended 30 June 2016, 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 30 June 2016, 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, 22 July, 2016

Board of Management

Eric Rondolat

Rene van Schooten

## 1. CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF PHILIPS LIGHTING

### A. CONDENSED CONSOLIDATED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated

	Q2		January to June	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
Sales	1,849	1,734	3,576	3,436
Cost of sales	(1,170)	(1,055)	(2,276)	(2,130)
<b>Gross margin</b>	<b>679</b>	<b>679</b>	<b>1,300</b>	<b>1,306</b>
Selling expenses	(440)	(429)	(870)	(859)
Research and development expenses	(88)	(90)	(176)	(180)
General and administrative expenses	(52)	(66)	(102)	(115)
4 8 Impairment of goodwill	-	-	-	(2)
5 Other business income	10	6	12	24
Other business expenses	(9)	(4)	(9)	(7)
<b>Income from operations</b>	<b>100</b>	<b>96</b>	<b>155</b>	<b>167</b>
Financial income	1	-	1	4
Financial expenses	(5)	(26)	(7)	(47)
<b>Income before taxes</b>	<b>96</b>	<b>70</b>	<b>149</b>	<b>124</b>
6 Income tax expense	(2)	(14)	(25)	(54)
<b>Income after taxes</b>	<b>94</b>	<b>56</b>	<b>124</b>	<b>70</b>
Results relating to investments in associates	1	1	1	1
<b>Net income</b>	<b>95</b>	<b>57</b>	<b>125</b>	<b>71</b>
<b>Attribution of net income for the period:</b>				
Net income attributable to shareholders of Philips Lighting	91	55	118	70
Net income attributable to non-controlling interests	4	2	7	1
<b>16 Earnings per common share attributable to shareholders</b>				
Weighted average number of common shares outstanding during the period (in thousands):				
- basic		150,000		150,000
- diluted		150,000		150,000
Net income attributable to shareholders per common share in EUR:				
- basic		0.37		0.47
- diluted		0.37		0.47

## B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

	Q2		January to June	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
<b>Net income for the period</b>	<b>95</b>	<b>57</b>	<b>125</b>	<b>71</b>
<b>Total of items that are or may be reclassified to profit or loss</b>				
Currency translation differences:				
Net current period change, before tax	(9)	46	31	(35)
Income tax effect	-	-	-	-
Total currency translation differences:	(9)	46	31	(35)
Cash flow hedges:				
Net current period change, before tax	(4)	4	(5)	-
Income tax effect	1	(1)	1	-
Total cash flow hedges:	(3)	3	(4)	-
<b>Other comprehensive (loss) income for the period</b>	<b>(12)</b>	<b>49</b>	<b>27</b>	<b>(35)</b>
<b>Total comprehensive income for the period</b>	<b>83</b>	<b>106</b>	<b>152</b>	<b>36</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Shareholders of Philips Lighting	78	102	135	37
Non-controlling interests	5	4	17	(1)

## C. CONDENSED CONSOLIDATED BALANCE SHEET

in millions of EUR unless otherwise stated

	31 December 2015	30 June 2016 unaudited
<b>Non-current assets</b>		
7 Property, plant and equipment	634	590
8 Goodwill	1,844	1,818
9 Intangible assets, excluding goodwill	856	794
Non-current receivables	20	15
Investments in associates	23	24
Other non-current financial assets	8	11
6 Deferred tax assets	259	466
Other non-current assets	15	23
<b>Total non-current assets</b>	<b>3,659</b>	<b>3,741</b>
<b>Current assets</b>		
10 Inventories	988	1,030
Other current assets	46	50
19 Derivative financial assets	9	16
Income tax receivable	25	32
Receivables	1,599	1,512
11 Assets classified as held for sale	34	43
20 Short-term loans receivable from Royal Philips	-	69
Cash and cash equivalents	83	462
<b>Total current assets</b>	<b>2,784</b>	<b>3,214</b>
<b>Total assets</b>	<b>6,443</b>	<b>6,955</b>
<b>Equity</b>		
Shareholders' equity	3,513	2,458
Non-controlling interest	103	106
12 <b>Group equity</b>	<b>3,616</b>	<b>2,564</b>
<b>Non-current liabilities</b>		
13 Long-term debt	2	1,202
14 Long-term provisions	350	885
6 Deferred tax liabilities	126	36
Other non-current liabilities	159	161
<b>Total non-current liabilities</b>	<b>637</b>	<b>2,284</b>
<b>Current liabilities</b>		
13 Short-term debt	86	124
19 Derivative financial liabilities	7	17
Income tax payable	6	41
Account and notes payable	1,051	934
Accrued liabilities	459	416
14 Short-term provisions	263	228
11 Liabilities associated with assets classified held for sale	6	10
Other current liabilities	312	337
<b>Total current liabilities</b>	<b>2,190</b>	<b>2,107</b>
<b>Total liabilities and group equity</b>	<b>6,443</b>	<b>6,955</b>

## D. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of EUR unless otherwise stated

	Q2		January to June	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
<b>Cash flows from operating activities</b>				
Net income	95	57	125	71
Adjustments to reconcile net income to net cash provided by operating activities	82	107	187	247
4 Depreciation, amortization and impairments of non-financial assets	74	68	147	146
Impairment of non-current financial assets	4	1	4	4
Net (gain)/ loss on sale of assets	(1)	1	(1)	-
Interest income	(1)	1	(1)	(3)
Interest expense on debt, borrowings and other liabilities	-	18	2	36
6 Income tax expense	2	14	25	54
17 Share-based compensation	4	4	11	10
Decrease (increase) in working capital	(159)	(36)	(80)	(138)
Decrease (increase) in receivables and other current assets	(94)	6	(66)	34
10 Decrease (increase) in inventories	(96)	(8)	(161)	(55)
Increase (decrease) in accounts payable, accrued and other current liabilities	31	(34)	147	(117)
Increase (decrease) in non-current receivables, other assets and other liabilities	(16)	7	(14)	(56)
14 Increase (decrease) in provisions	(34)	(27)	(57)	(58)
Interest paid	1	(6)	(1)	(7)
Income taxes paid	(10)	(20)	(17)	(37)
Other items	(4)	-	(4)	-
<b>Net cash provided by (used in) operating activities</b>	<b>(45)</b>	<b>82</b>	<b>139</b>	<b>22</b>
<b>Cash flows from investing activities</b>				
Net capital expenditures	(37)	(22)	(65)	(40)
9 Additions of intangible assets	(16)	(5)	(24)	(9)
7 Capital expenditures on property, plant and equipment	(17)	(17)	(37)	(33)
7 Proceeds from disposal of property, plant and equipment	(4)	-	(4)	2
Proceeds from other non-current financial assets	-	-	17	-
Purchases of other non-current financial assets	(3)	(4)	(3)	(4)
Proceeds from sale of interests in businesses, net of cash disposed of	(3)	9	(6)	9
<b>Net cash used for investing activities</b>	<b>(43)</b>	<b>(17)</b>	<b>(57)</b>	<b>(35)</b>
<b>Cash flows from financing activities</b>				
Funding by (distribution to) Royal Philips	112	(1,146)	(37)	(1,495)
Dividend paid	-	(10)	-	(10)
Capital contribution from Royal Philips	-	-	-	692
Proceeds from issuance (payments) of debt	(9)	1,200	(33)	1,203
<b>Net cash (used for) provided by financing activities</b>	<b>103</b>	<b>44</b>	<b>(70)</b>	<b>390</b>
<b>Net cash provided by (used in) operations</b>	<b>15</b>	<b>109</b>	<b>12</b>	<b>377</b>
Effect of changes in exchange rates on cash and cash equivalents	2	-	(7)	2
Cash and cash equivalents at the beginning of the period	63	353	75	83
<b>Cash and cash equivalents at the end of the period</b>	<b>80</b>	<b>462</b>	<b>80</b>	<b>462</b>



## E. CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN GROUP EQUITY

	Owner's net investment	Share capital	Share premium	Retained earnings	Currency translation differences	Cash flow hedges	Total shareholders' equity	Non-controlling interests	Group equity
<b>January to June 2015 (unaudited)</b>									
Balance 1 January	3,418	-	-	-	78	(1)	3,495	88	3,583
Total comprehensive income (loss)	104	-	-	-	31	-	135	17	152
Funding by (distribution to) Royal Philips	175	-	-	-	-	-	175	-	175
Balance 30 June	3,697	-	-	-	109	(1)	3,805	105	3,910
<b>January to June 2016 (unaudited)</b>									
Balance 1 January	3,384	-	-	-	127	2	3,513	103	3,616
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 Group	(2,292)	2	2,305	(15)	-	-	-	-	-
Balance 30 June	-	2	2,305	55	94	2	2,458	106	2,564

## **2. NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 June 2016**

All amounts in millions of EUR unless otherwise stated

### **A. 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'.

Philips Lighting ('the Company') is used for Philips Lighting N.V and its subsidiaries.

As used herein, 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 incorporated as a private limited liability company on 1 February 2016 was converted into a public company with limited liability on 31 May 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.

### **B. Separation from Royal Philips**

On 1 February 2016, KPNV and Philips Lighting Holding B.V. entered into the Separation Agreement and a set of ancillary agreements, together effectuating 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 4 May 2016. Furthermore the Separation Agreement and ancillary agreements were assigned to the Company prior to 31 March 2016.

The Separation Agreement allocates 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 and on a going concern basis.

The Separation was substantially completed on 1 February 2016 with the exception of certain delayed transfers which were completed by 31 May 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 a transaction under common control. As a result, the Condensed Consolidated Interim Financial Statements are based on predecessor values.

Transactions and balances up to 1 February 2016 reported as part of the continuing operations of the Lighting business (excluding Lumileds) of Royal Philips have been directly attributed to Philips Lighting. However, transactions and balances up to 1 February 2016 reported as part of Philips IG&S (Innovation, Group & Services) have been attributed to Philips Lighting based on specific identification or allocation. Allocations were made using relative percentages of net sales, headcount, floor area usage or other methods, which are considered reasonable.

## C. 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.

The Condensed Consolidated Interim Financial Statements of the Company for the periods presented have been prepared as if the Lighting business of Royal Philips had been part of the Company for all such periods, and as if the Company existed as a separate group for all periods presented.

The references to Philips Lighting throughout these financial statements are to the combined Lighting business of Royal Philips for the periods prior to completion of the Separation and to the Company and its consolidated subsidiaries for the periods after the completion of Separation.

Prior to the Separation, the entities forming the Lighting business of Royal Philips were all direct or indirect subsidiaries under the common control of Royal Philips and were not a legal group for consolidated financial reporting purposes in accordance with IFRS 10 and IAS 27.

The prior period information is based on the combination of the former Lighting business of Royal Philips, representing the activities, assets and liabilities of the Lighting business of Royal Philips and the lighting-related activities of the IG&S sector of Royal Philips that relate to or have been assigned to the Lighting business of Royal Philips.

The Condensed Consolidated Interim Financial Statements are unaudited and do not contain all the information and disclosures required in the annual financial statements. The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Company's Combined Financial Statements for the year ended 31 December 2015.

The accounting policies applied in the Condensed Consolidated Interim Financial Statements are consistent with those applied in the Combined Financial Statements for the year ended 31 December 2015 except for other changes noted below. Refer to Note D.26 which sets out IFRS accounting standards to be adopted as from 1 January 2016 and onwards that may be the most relevant to the Company, which did not materially impact these Condensed Consolidated Interim Financial Statements.

### *Other changes*

The unfunded pension liabilities were presented per 31 March 2016 as part of other non-current liabilities (EUR 170 million). As of 30 June 2016 these liabilities are presented as long-term provisions together with provisions for defined benefits and other post-employment benefits. As the balance at 31 December 2015 was nil, no amounts were reclassified in comparative figures.

### *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 Combined Financial Statements for the year ended 31 December 2015.

## D. DISCLOSURE NOTES

### 1. Information by segment and main country

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

#### Information on income statement by segment in millions of EUR unless otherwise stated

	Q2 2015				Q2 2016			
	Sales	Sales including intersegment	Income (loss) from operations	Income (loss) from operations as a % of sales	Sales	Sales including intersegment	Income (loss) from operations	Income (loss) from operations as a % of sales
Lamps	727	740	122	16%	572	581	117	20%
LED	314	338	8	2%	346	376	27	7%
Professional	689	691	7	1%	684	681	21	3%
Home	116	118	(18)	(15%)	127	128	(33)	(26%)
Others	3	9	(19)	-	5	7	(36)	- <sup>1</sup>
Intersegment elimination		(47)	-	-		(39)	-	-
<b>Philips Lighting</b>	<b>1,849</b>	<b>1,849</b>	<b>100</b>	<b>5%</b>	<b>1,734</b>	<b>1,734</b>	<b>96</b>	<b>6%</b>

  

	January to June 2015				January to June 2016			
	Sales	Sales including intersegment	Income (loss) from operations	Income (loss) from operations as a % of sales	Sales	Sales including intersegment	Income (loss) from operations	Income (loss) from operations as a % of sales
Lamps	1,454	1,481	228	15%	1,187	1,204	230	19%
LED	589	633	10	2%	701	762	46	6%
Professional	1,299	1,305	(12)	(1%)	1,285	1,290	(4)	(0%)
Home	228	231	(37)	(16%)	251	252	(48)	(19%)
Others	6	12	(34)	-	12	14	(57)	- <sup>1</sup>
Intersegment elimination		(86)	-	-		(86)	-	-
<b>Philips Lighting</b>	<b>3,576</b>	<b>3,576</b>	<b>155</b>	<b>4%</b>	<b>3,436</b>	<b>3,436</b>	<b>167</b>	<b>5%</b>

<sup>1</sup>Considering the nature of Others, income from operations as a % of sales for Others is not meaningful.

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 are reported based on the country of origin as follows:

#### Sales by main countries in millions of EUR unless otherwise stated

January to June

	2015	2016
Netherlands	224	219
United States	856	869
Germany	216	205
China	232	219
India	201	195
Saudi Arabia	140	97
Other countries	1,707	1,632
<b>Total sales</b>	<b>3,576</b>	<b>3,436</b>

Balance sheet details of Philips Lighting by segment are as follows:

## Selected balance sheet information by segment in millions of EUR unless otherwise stated

As of 31 December and 30 June

	Total assets 30 June	Total liabilities excl. Debt 30 June	Depreciation and amortization Jan - June
<b>2016</b>			
Lamps	1,122	(689)	(37)
LED	586	(320)	(11)
Professional	3,581	(621)	(75)
Home	355	(225)	(6)
Others	1,268	(1,200)	(17)
<b>Philips Lighting subtotal</b>	<b>6,912</b>	<b>(3,055)</b>	<b>(146)</b>
Assets classified as held for sale	43	(10)	
<b>Total assets/ liabilities (excl. debt)</b>	<b>6,955</b>	<b>(3,065)</b>	

	Total assets 31 Dec	Total liabilities excl. Debt 31 Dec	Depreciation and amortization Jan - June
<b>2015</b>			
Lamps	1,196	(844)	(41)
LED	589	(315)	(10)
Professional	3,624	(627)	(76)
Home	373	(180)	(5)
Others	627	(767)	(15)
<b>Philips Lighting subtotal</b>	<b>6,409</b>	<b>(2,733)</b>	<b>(147)</b>
Assets classified as held for sale	34	(6)	
<b>Total assets/liabilities (excl. debt)</b>	<b>6,443</b>	<b>(2,739)</b>	

Tangible and intangible assets can be allocated to the following countries:

## Tangible and intangible fixed assets<sup>1</sup> in millions of EUR unless otherwise stated

As of 31 December and 30 June

	2015	2016
Netherlands	141	131
United States	2,159	2,089
Germany	8	13
China	116	97
India	29	26
Saudi Arabia	248	222
Other countries	633	624
<b>Tangible and intangible assets</b>	<b>3,334</b>	<b>3,202</b>

<sup>1</sup>Including goodwill

## 2. Financial risk management

In addition to the risks as disclosed in the Combined Financial Statements for the year ended 31 December 2015 (note E 30), the Company entered into term loan and revolving credit facilities in May 2016 which are subject to variable interest rates (refer to note 13).

Interest rate risk is the risk of the fair value or future cash flows of a financial instrument fluctuating because of changes in the market interest rates. At 30 June 2016, Philips Lighting had outstanding interest bearing debt of EUR 1,326 million, which creates an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results. The sensitivity of changing interest rates for this reporting period is low as the underlying EUR interest rates are negative. Philips

Lighting Group Treasury constantly monitors interest rate developments and has flexibility to opt for different short term interest periods for the new debt instruments at roll-over dates or could enter into derivatives financial instruments to fix interest rates for a certain period of time.

### 3. Seasonality

The conventional lighting industry generally experiences minor seasonal fluctuations in sales, as generally the first and fourth quarters of the year (largely correlating with winter in the northern hemisphere) with shorter daylight periods causes higher demand for lighting products than in the second and third quarters 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:

#### Depreciation, amortization and impairments in millions of EUR unless otherwise stated

January to June

	2015	2016
Depreciation of property, plant and equipment	(75)	(62)
Amortization of acquired intangible assets <sup>1</sup>	(54)	(54)
Amortization of non-acquired intangible assets <sup>2</sup>	(17)	(13)
<b>Depreciation and amortization</b>	<b>(146)</b>	<b>(129)</b>
Impairment of property, plant and equipment	-	(13)
Impairment of acquired intangible assets <sup>1</sup>	-	-
Impairment of non-acquired intangible assets <sup>2</sup>	(1)	(2)
Impairment of goodwill	-	(2)
<b>Impairments</b>	<b>(1)</b>	<b>(17)</b>
<b>Total</b>	<b>(147)</b>	<b>(146)</b>

<sup>1</sup> Acquired intangible assets include technology, customer relationships, brand names and other intangible assets, excluding goodwill.

<sup>2</sup> Non-acquired intangible assets include product development and software, excluding goodwill.

Impairment of property, plant and equipment of EUR 13 million for the six month period ended 30 June 2016 is primarily attributable to write-downs of specific assets due to restructuring programs related to manufacturing footprint rationalization.

Impairment of goodwill of EUR 2 million in the six month period ended 30 June 2016 relates to goodwill allocated to (anticipated) divestments of certain operations which met the IFRS 5 criteria of assets held for sale.

### 5. Other business income

Other business income for the six month period ended 30 June 2016 was €24 million, compared to €12 million for the six month period ended 30 June 2015, an increase of €12 million. For the six month period ended 30 June 2016, other business income included a €14 million gain from the sale of trade accounts receivable and inventories to the other shareholder of GLC resulting in a release of related provisions by the Company.

## 6. Income taxes

Income tax expense in the first six months of 2016 increased by EUR 29 million compared to the corresponding period of the previous year, mainly due to non-recurring tax charges related to the separation directly attributable to Philips Lighting.

Deferred tax assets increased by EUR 207 million and deferred tax liabilities decreased by EUR 90 million during the six month period ended 30 June 2016, mainly due to the tax impacts of the Separation including the recognition of a deferred tax asset in connection with the transfer of pension liabilities (refer note 15) and changes in fiscal unities. As of 30 June 2016, the deferred tax asset arising from the transferred pension liabilities amounts to EUR 105 million.

Following the IPO, the fiscal unity with Royal Philips for Dutch corporate income tax purposes ended. The eligible Dutch Philips Lighting group companies will constitute a new fiscal unity for corporate income tax.

## 7. Property, plant and equipment

Property, plant and equipment decreased by EUR 44 million during the six month period ended 30 June 2016, mainly due to additions of EUR 41 million (six month period ended 30 June 2015: EUR 38 million) being more than offset by depreciation of EUR 62 million (six month period ended 30 June 2015: EUR 75 million) and impairment charges of EUR 13 million (six month period ended 30 June 2015: EUR nil).

## 8. Goodwill

Goodwill is summarized as follows:

### Goodwill movement schedule in millions of EUR unless otherwise stated

	2016
<b>Balance per 1 January</b>	<b>1,844</b>
<i>Change in book value:</i>	
Divestments / transfers to assets held for sale and other changes	(12)
Translation differences	(14)
<b>Total changes</b>	<b>(26)</b>
<b>Book value per 30 June</b>	<b>1,818</b>

The decrease of EUR 26 million in the first six months of 2016 is mainly due to the change in USD/EUR rate which impacted the goodwill denominated in USD.

For impairment testing, goodwill is allocated to (groups of) cash-generating units, which represent the lowest level at which the goodwill is monitored internally for management purposes. The cash-generating units correspond to the operating segments.

Goodwill allocated to the cash-generating unit Professional is considered to be significant in comparison to the total book value of goodwill of Philips Lighting at 30 June 2016. The amount associated as of 30 June 2016 is presented below.



## Goodwill allocation in millions of EUR unless otherwise stated

	30-06-2016
Professional	1,596
Others	222
<b>Total</b>	<b>1,818</b>

The basis of the recoverable amount used for the units disclosed in this note is the value in use. In the annual impairment test performed in the second quarter, the estimated recoverable amount of the cash-generating units tested exceeded the carrying value of the unit. Therefore no impairment loss was recognized.

### Key assumptions - general

Key assumptions used in the impairment tests for the units were sales growth rates, income from operations and the rates used for discounting the projected cash flows. These cash flow projections were determined using management's internal forecasts that cover an initial period from 2016 to 2020. Projections were extrapolated with stable or declining growth rates for a period of 5 years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long-term average growth rate.

The sales growth rates and margins used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages. Income from operations in all mentioned units in this note is expected to increase over the projection period as a result of volume growth and cost efficiencies.

### Key assumptions and sensitivity analysis in relation to cash-generating units to which a significant amount of goodwill is allocated

Cash flow projections of Professional are based on the key assumptions included in the table below.

#### Key assumptions in %

January to June

	Compound sales growth rate, <sup>1</sup>			pre-tax discount rates
	initial forecast period	extra polation period <sup>2</sup>	used to calculate terminal value	
Professional	6.6	5.1	2.7	13.9

<sup>1</sup>) Compound sales growth rate is the annualized steady growth rate over the forecast period

<sup>2</sup>) Also referred to later in the text as compound long-term sales growth rate

Based on the test performed in the second quarter, the headroom of Professional was estimated at EUR 250 million. The following changes could, individually, cause the value in use to fall to the level of the carrying value:

#### Sensitivity analysis

January to June

	increase in pre-tax discount rate, basis points	decrease in compound long-term sales growth rate, basis points	decrease in terminal value amount, %
Professional	120	360	18.9

## *Additional information in relation to cash-generating units to which a non-significant amount of goodwill is allocated*

In addition to the significant goodwill recorded at Professional as referred to above, Home is sensitive to fluctuations in the assumptions as set out above. Based on the most recent impairment test, it was noted that the headroom of the cash-generating unit Home was approximately EUR 150 million. An increase of 640 points in the pre-tax discounting rate, a 1370 basis points decline in the compounding long-term sales growth rate or a 72% decrease in terminal value would, individually, cause its value to fall to the level of its carrying value. The goodwill allocated to Home at 30 June 2016 amounts to EUR 126 million.

## 9. Intangible assets excluding goodwill

The changes in intangible assets excluding goodwill for the six month period ended 30 June 2016 are summarized as follows:

### **Intangible assets excluding goodwill** in millions of EUR unless otherwise stated

<b>Balance 1 January 2016</b>	<b>856</b>
<i>Change in book value:</i>	
Additions	13
Amortization	(67)
Impairment	(2)
Transfers to assets held for sale	(2)
Translation differences	(4)
<b>Total changes</b>	<b>(62)</b>
<b>Balance 30 June 2016</b>	<b>794</b>

## 10. Inventories

### **Inventories** in millions of EUR unless otherwise stated

	<b>31-12-2015</b>	<b>30-06-2016</b>
Raw materials	294	311
Work in progress	27	33
Finished goods	667	686
<b>Total</b>	<b>988</b>	<b>1,030</b>

For the six month period ended 30 June 2016 a reversal of write down of inventories to realizable value amounted to EUR 5 million was recorded. In the six month period ended 30 June 2015 a write down of inventories to realizable value amounted to EUR 14 million.

## 11. Assets classified as held for sale

### **Assets classified as held for sale** in millions of EUR unless otherwise stated

	<b>31-12-2015</b>	<b>30-06-2016</b>
Assets classified as held for sale	34	43
Liabilities associated with assets held for sale	6	10

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.

## 12. Shareholders' equity

### *Ordinary shares*

As part of the Separation, Royal Philips has made capital contributions to Philips Lighting of EUR 692 million in the six month period ended 30 June 2016.

As part of the Separation, certain assets and liabilities were settled based on their fair values to meet corporate income tax requirements in various countries. Assets and liabilities continue to be recorded at their book values. The excess between the fair value and the recorded carrying value of the net assets transferred, net of tax, is reflected as an equity transaction with Royal Philips of EUR 555 million during the six month period ended 30 June 2016, as a transaction under common control.

Prior to the formation of Philips Lighting, funding by Royal Philips was reflected through movement in owner's net investment, which includes the finalization of subsidiary share and asset transfers and settlement of inter-group positions with Royal Philips. This resulted in a total distribution to Royal Philips of EUR 1,229 million.

Upon the completion of the Separation, Royal Philips had transferred the ownership of the respective Lighting businesses to Philips Lighting. As part of the formation of the Philips Lighting Group the Company issued ordinary shares, resulting in share capital of EUR 1.5 million and share premium of EUR 2,305 million.

Subsequently, on 31 May 2016 Royal Philips completed the offering of 37,500,000 ordinary shares in the share capital of the Company on the Euronext Amsterdam exchange ('IPO').

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 with a nominal value of EUR 0.01 per share.

As of 30 June 2016, the issued and outstanding share capital of the Company is EUR 1.5 million, divided into 150,000,000 ordinary shares with nominal value of EUR 0.01 per share.

As of 30 June 2016, 71.225 % of the issued share capital is held by Royal Philips and 28.775% is publically traded at the Euronext Stock exchange in Amsterdam. Royal Philips has entered into a customary lock-up agreement with the underwriters not to sell its shares in Philips Lighting N.V. for 180 days after the IPO.

### *Preference Shares*

Stichting Continuïteit Philips Lighting, a foundation organized under the laws of the Netherlands, has been granted the right to acquire preference shares in the Company. As a means to protect the Company and its stakeholders against an unsolicited attempt to acquire (de facto) control of the Company, the Company's articles of association allow the Board of Management and the Supervisory Board to issue (rights to acquire) preference shares to a third-party. As of 30 June 2016, this right has not been exercised therefore no preference shares have been issued.

### 13. Short-term and long-term debt

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

**Short-term and long-term debt** in millions of EUR unless otherwise stated

	31-12-2015	30-06-2016
Facility (EUR)	-	735
Facility (USD)	-	450
Other Debt	88	141
<b>Total</b>	<b>88</b>	<b>1,326</b>
<b>Of which:</b>		
Short-term debt	86	124
Long-term debt	2	1,202
<b>Total</b>	<b>88</b>	<b>1,326</b>

In May 2016, Philips Lighting entered into a 5-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 intragroup financing from Royal Philips. The term facility is repayable in five years, however the Company can repay the Term Facility 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 plus a margin. The margin is initially 0.75% and is subject to adjustment based on the Net Leverage Ratio.

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

Debt issuance costs of EUR 8 million were paid upon signing the facility. These costs will be amortized over the term of the facility as part of financial expenses.

Other Debt includes various local (bank) loans. The main other debt position is a loan of Philips Lighting in Saudi Arabia amounting to EUR 79 million (31 December 2015: EUR 77 million).

The Term Loan Facility and Revolving Credit Facility include a financial covenant providing that Philips Lighting must maintain a Net Leverage Ratio not greater than 3:1 for any test period ending on or after 31 December 2016.

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

## 14. Provisions

Provisions are summarized as follows:

**Provisions** in millions of EUR unless otherwise stated

	31-12-2015	30-06-2016
Provision for post-employment benefits	43	596
Restructuring related provisions	178	133
Environmental provisions	163	158
Product warranty	60	58
Onerous contract provision	31	29
Other long-term employee benefit provisions	25	25
Other provisions	113	114
<b>Total</b>	<b>613</b>	<b>1,113</b>
<b>Of which:</b>		
Short-term provisions	263	228
Long-term provisions	350	885
<b>Total</b>	<b>613</b>	<b>1,113</b>

The change in provisions was mainly attributable to:

- the increase in provision for post-employment benefits, which resulted from the transfer of pension liabilities to Philips Lighting as part of the Separation (refer to note 15 post-employment benefits), and
- partly offset by the decrease in restructuring related provisions, which was mainly due to usage.

## 15. Post-employment benefits

As part of the Separation, Philips Lighting assumed additional net pension liabilities of EUR 607 million from Royal Philips. Prior to the date of Separation these pension liabilities were not previously reflected in the Combined Financial Statements of Philips Lighting as the legal obligation did not exist. This amount has been settled via short-term loans receivable from Royal Philips as part of the Separation.

The following table provides the movements in the post-employment benefit obligation, plan assets and net defined benefit liability determined under IAS 19.

**Post-employment benefits** in millions of EUR unless otherwise stated

	Obligation	Plan assets	Net liability
<b>Opening balance 1 January 2016</b>	<b>(43)</b>	<b>-</b>	<b>(43)</b>
Transfer from Royal Philips	(1,153)	546	(607)
Reclassifications	1	1	2
Service costs	(4)	-	(4)
Interest	(8)	-	(8)
Contribution by employer	-	45	45
Benefits paid	41	(26)	15
Plan amendments (incl curtailments)	3	-	3
Translation differences	(4)	7	3
<b>Total changes</b>	<b>(1,124)</b>	<b>573</b>	<b>(551)</b>
<b>Balance 30 June 2016</b>	<b>(1,167)</b>	<b>573</b>	<b>(594)</b>

Unrecognized assets of EUR 19 million were transferred as part of the transfer from Royal Philips and were EUR 22 million as of 30 June 2016.

No significant market fluctuations events have occurred during the first six months of 2016, which would require re-measurement under IAS 34. The Company has recognized a EUR 4 million past service cost gain on a plan amendment in the German pension plan. The earlier announced 2016 de-risking contribution to the US pension plan of EUR 45 million (USD 50 million) was paid to the plan in March 2016 leading to a decrease in the net defined benefit obligation at 30 June 2016.

The Company now presents all net defined benefit post-employment obligations on one line under provisions instead of split between provisions and other liabilities. Refer further to Basis of Preparation - other changes.

The net pension liability is presented as follows:

**Net pension liability** in millions of EUR unless otherwise stated

	31-12-2015	30-06-2016
Provision for post employment benefits	(43)	(596)
Prepaid pension cost under other non-current assets	-	2
<b>Total</b>	<b>(43)</b>	<b>(594)</b>

## 16. Contingent liabilities

### Guarantees

Philips Lighting's policy is to provide guarantees and other letters of support only in writing. Philips Lighting does not stand by other forms of support. As of 30 June 2016 the total fair value of guarantees recognized on the Condensed Consolidated Interim Balance Sheet amounted to nil (31 December 2015: nil). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates as per 30 June 2016 amounted to EUR 10 million (31 December 2015: EUR 8 million).

### Indemnifications

By way of surety for the fulfilment of the 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 20, 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 that were caused, or alleged to have been caused, by its products, alleged false or misleading information regarding product characteristics as well as commercial transactions, environmental pollution, competition issues and intellectual property infringements. Since the ultimate disposition of legal proceedings, regulatory and arbitration matters cannot be predicted with certainty, an adverse

outcome could have a material adverse effect on Philips Lighting's business, results of operations, financial position and prospects.

For information regarding legal, regulatory and arbitration proceedings in which the Company is involved, please refer to notes E.18 and E.26 in the Combined Financial Statements for the year ended 31 December 2015.

## 17. Share-based compensation

Historically, share-based compensation plans for Philips Lighting employees have been sponsored by Royal Philips, and settled with equity instruments of Royal Philips. The purpose of the share-based compensation plans is to align the interests of management with those of shareholders of Royal Philips.

As of 30 June 2016, Philips Lighting has not granted any share-based compensation to employees to be settled with the Company's own equity, and has not issued any (restricted) shares to employees.

Share-based compensation costs for Philips Lighting were EUR 11 million and EUR 10 million in the six month period ended 30 June of 2015 and 2016, respectively. These costs relate to the share-based compensation plans of Royal Philips.

### *Performance and restricted shares granted*

In the first six months of 2016 Royal Philips granted to Philips Lighting employees 924,393 performance shares and 447,615 restricted shares to Philips Lighting employees.

### *Vested shares delivered and options exercised*

In the first six months of 2016 a total of 1,452,167 vested shares (performance and restricted) were delivered to Philips Lighting employees by Royal Philips. In addition, 264,949 EUR-denominated options and 45,087 USD-denominated options were exercised at a weighted average exercise price of EUR 17.13 and USD 18.93 respectively.

### *Accelerate! options exercised*

Under the Accelerate! Program, in the first six months of 2016 a total of 31,366 EUR-denominated options and 5,600 USD-denominated options were exercised at an exercise price of EUR 19.00 and USD 20.02 respectively.

## 18. Earnings per share

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

### *Basic EPS*

Basic EPS is calculated by dividing the net income attributable to shareholders by the weighted average number of common shares outstanding.

On 31 May 2016, upon completion of the IPO, the Company has an issued ordinary share capital of EUR 1.5 million, divided into 150,000,000 common shares with nominal value of EUR 0.01 per share. Since Philips Lighting did not have any issued share capital in the previous reporting period, no earnings per share was calculated.

## *Diluted EPS*

Diluted EPS is determined by adjusting the net income attributable to shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprises of restricted shares, performance share and share options granted to employees.

As of 30 June 2016, Philips Lighting has not granted any share-based compensation to employees to be settled with the Company's own equity and has not issued any (restricted) shares to employees, therefore there is no dilution of earnings per share. The currently existing share-based compensation plans for Philips Lighting employees are sponsored by Royal Philips and will be settled with equity instruments of Royal Philips.

## **19. 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, current receivables, accounts payable, interest accrual and (short/ long) debt, the carrying amounts approximate fair value because of short maturity of these instruments, and therefore fair value information is not included in the table below.



**Fair value of financial assets and liabilities** in millions of EUR unless otherwise stated

	Balance as of 31 December 2015		Balance as of 30 June 2016	
	carrying amount	estimated fair value	carrying amount	estimated fair value
<b>Financial assets</b>				
<b>Carried at fair value:</b>				
Available-for-sale financial assets	5	5	1	1
Derivative financial instruments	9	9	16	16
<b>Financial assets carried at fair value</b>	<b>14</b>		<b>17</b>	
<b>Carried at (amortized) cost:</b>				
Cash and cash equivalents	83		462	
Loans and receivables:				
Other non-current loans and receivables	3	3	8	8
Receivables - current	1,599		1,512	
Receivables - non-current	20	20	15	15
Short-term loans receivable from Royal Philips	-		69	
Held-to-maturity investments	-		1	
<b>Financial assets carried at (amortized) costs</b>	<b>1,705</b>		<b>2,067</b>	
<b>Financial liabilities</b>				
<b>Carried at fair value:</b>				
Derivative financial instruments	(7)	(7)	(17)	(17)
<b>Financial liabilities carried at fair value</b>	<b>(7)</b>		<b>(17)</b>	
<b>Carried at (amortized) cost:</b>				
Accounts payable	(1,051)		(934)	
Accrued interest	(1)		(1)	
Debt	(88)		(1,326)	
<b>Financial liabilities carried at (amortized) costs</b>	<b>(1,140)</b>		<b>(2,261)</b>	

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.

**Fair value hierarchy** in millions of EUR unless otherwise stated

	level 1	level 2	level 3	total
<b>Balance 30 June 2016</b>				
Derivative financial instruments - assets	-	16	-	16
Other non-current loans and receivables	-	8	-	8
Receivables - non-current	-	15	-	15
Available-for-sale financial assets	-	1	-	1
<b>Total financial assets</b>	-	<b>40</b>	-	<b>40</b>
Derivative financial instruments - liabilities	-	(17)	-	(17)
<b>Total financial liabilities</b>	-	<b>(17)</b>	-	<b>(17)</b>
<b>Balance 31 December 2015</b>				
Derivative financial instruments - assets	-	9	-	9
Other non-current loans and receivables	-	3	-	3
Receivables - non-current	-	20	-	20
Available-for-sale financial assets	-	5	-	5
<b>Total financial assets</b>	-	<b>37</b>	-	<b>37</b>
Derivative financial instruments - liabilities	-	(7)	-	(7)
<b>Total financial liabilities</b>	-	<b>(7)</b>	-	<b>(7)</b>

## 20. Related party transactions

In the normal course of business, Philips Lighting purchases and sells goods and services from/ to various parties in which Philips Lighting 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.

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

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

## Related party transactions in millions of EUR unless otherwise stated

For the period Jan - June

	2015	2016
Sales to Royal Philips	18	17
Purchases from Royal Philips	(45)	(36)
Movement in funding from (to) Royal Philips	175	(1,229)
Capital contribution	-	692
Brand license fee costs	-	16
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

## Related party balances in millions of EUR unless otherwise stated

	31-12-2015	30-06-2016
Accounts receivable from related parties - Royal Philips	83	12
Accounts payable to related parties - Royal Philips	(111)	(59)
Indemnification receivable from Royal Philips	-	53
Indemnification payable to Royal Philips	-	(114)
Funding from Royal Philips (through owners net investment)	(3,158)	-
Short-term loans receivable from Royal Philips	-	69

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

Philips Lighting uses the Philips brand name. As part of the Separation a Trademark License Agreement was signed between Philips Lighting and Royal Philips.

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

### Sales growth composition

	Americas	Europe	Rest of World	Global Businesses	Total
<b>Sales for the half-year ended 30 June 2015</b>	<b>1,137</b>	<b>1,080</b>	<b>1,103</b>	<b>256</b>	<b>3,576</b>
Effects of currency movements	(28)	(1)	(54)	(1)	(84)
Effects of changes in deconsolidation	-	(6)	-	4	(2)
<b>Comparable sales for the half-year ended 30 June 2015</b>	<b>1,109</b>	<b>1,073</b>	<b>1,049</b>	<b>259</b>	<b>3,490</b>
Comparable sales growth	3	(24)	(26)	(1)	(48)
<b>Comparable sales for the half-year ended 30 June 2016</b>	<b>1,112</b>	<b>1,049</b>	<b>1,023</b>	<b>258</b>	<b>3,442</b>
Effects of changes in consolidation	-	2	(2)	-	-
Effects of currency movements	(8)	(6)	8	-	(6)
<b>Sales for the half-year ended 30 June 2016</b>	<b>1,104</b>	<b>1,045</b>	<b>1,029</b>	<b>258</b>	<b>3,436</b>
Comparable sales growth (%)	0.3%	-2.2%	-2.5%	-0.4%	-1.4%
<b>Nominal Sales Growth</b>	<b>-2.9%</b>	<b>-3.2%</b>	<b>-6.7%</b>	<b>0.8%</b>	<b>-3.9%</b>
Currency effects	-3.2%	-0.6%	-4.0%	-0.4%	-2.5%
Consolidation changes	0.0%	-0.4%	-0.2%	1.6%	-0.1%
<b>Comparable Growth</b>	<b>0.3%</b>	<b>-2.2%</b>	<b>-2.5%</b>	<b>-0.4%</b>	<b>-1.4%</b>

<b>Sales for the quarter ended 30 June 2015</b>	<b>599</b>	<b>519</b>	<b>596</b>	<b>135</b>	<b>1,849</b>
Effects of currency movements	(28)	(3)	(42)	(2)	(75)
Effects of changes in deconsolidation	-	(2)	(2)	2	(2)
<b>Comparable sales for the quarter ended 30 June 2015</b>	<b>571</b>	<b>514</b>	<b>552</b>	<b>135</b>	<b>1,772</b>
Comparable sales growth	(12)	-	(10)	(4)	(26)
<b>Comparable sales for the quarter ended 30 June 2016</b>	<b>559</b>	<b>514</b>	<b>542</b>	<b>131</b>	<b>1,746</b>
Effects of changes in consolidation	-	1	(1)	-	-
Effects of currency movements	(10)	(3)	2	(1)	(12)
<b>Sales for the quarter ended 30 June 2016</b>	<b>549</b>	<b>512</b>	<b>543</b>	<b>130</b>	<b>1,734</b>
Comparable sales growth (%)	-2.1%	0.0%	-1.8%	-3.0%	-1.5%
<b>Nominal Sales Growth</b>	<b>-8.3%</b>	<b>-1.3%</b>	<b>-8.9%</b>	<b>-3.7%</b>	<b>-6.2%</b>
Currency effects	-6.2%	-1.2%	-6.6%	-2.2%	-4.6%
Consolidation changes	0.0%	-0.2%	-0.5%	1.4%	-0.1%
<b>Comparable Growth</b>	<b>-2.1%</b>	<b>0.0%</b>	<b>-1.8%</b>	<b>-3.0%</b>	<b>-1.5%</b>

	Lamps	LED	Professional	Home	Others	Total
<b>Sales for the half-year ended 30 June 2015</b>	<b>1,454</b>	<b>589</b>	<b>1,299</b>	<b>228</b>	<b>6</b>	<b>3,576</b>
Effects of currency movements	(44)	(14)	(22)	(4)	-	(84)
Effects of changes in deconsolidation	-	-	(2)	-	-	(2)
<b>Comparable sales for the half-year ended 30 June 2015</b>	<b>1,410</b>	<b>575</b>	<b>1,275</b>	<b>224</b>	<b>6</b>	<b>3,490</b>
Comparable sales growth	(220)	126	12	28	6	(48)
<b>Comparable sales for the half-year ended 30 June 2016</b>	<b>1,190</b>	<b>701</b>	<b>1,287</b>	<b>252</b>	<b>12</b>	<b>3,442</b>
Effects of changes in consolidation	-	-	-	-	-	-
Effects of currency movements	(3)	-	(2)	(1)	-	(6)
<b>Sales for the half-year ended 30 June 2016</b>	<b>1,187</b>	<b>701</b>	<b>1,285</b>	<b>251</b>	<b>12</b>	<b>3,436</b>
Comparable sales growth (%)	-15.6%	21.9%	0.9%	12.5%	100.0%	-1.4%
<b>Nominal Sales Growth</b>	<b>-18.4%</b>	<b>19.0%</b>	<b>-1.1%</b>	<b>10.1%</b>	<b>100.0%</b>	<b>-3.9%</b>
Currency effects	-2.8%	-2.9%	-1.9%	-2.4%	0.0%	-2.5%
Consolidation changes	0.0%	0.0%	-0.2%	0.0%	0.0%	-0.1%
<b>Comparable Growth</b>	<b>-15.6%</b>	<b>21.9%</b>	<b>0.9%</b>	<b>12.5%</b>	<b>100.0%</b>	<b>-1.4%</b>

<b>Sales for the quarter ended 30 June 2015</b>	<b>727</b>	<b>314</b>	<b>689</b>	<b>116</b>	<b>3</b>	<b>1,849</b>
Effects of currency movements	(35)	(13)	(23)	(4)	-	(75)
Effects of changes in deconsolidation	-	-	(2)	-	-	(2)
<b>Comparable sales for the quarter ended 30 June 2015</b>	<b>692</b>	<b>301</b>	<b>664</b>	<b>112</b>	<b>3</b>	<b>1,772</b>
Comparable sales growth	(116)	47	25	16	2	(26)
<b>Comparable sales for the quarter ended 30 June 2016</b>	<b>576</b>	<b>348</b>	<b>689</b>	<b>128</b>	<b>5</b>	<b>1,746</b>
Effects of changes in consolidation	-	-	-	-	-	-
Effects of currency movements	(4)	(2)	(5)	(1)	-	(12)
<b>Sales for the quarter ended 30 June 2016</b>	<b>572</b>	<b>346</b>	<b>684</b>	<b>127</b>	<b>5</b>	<b>1,734</b>
Comparable sales growth (%)	-16.8%	15.6%	3.8%	14.3%	66.7%	-1.5%
<b>Nominal Sales Growth</b>	<b>-21.3%</b>	<b>10.2%</b>	<b>-0.7%</b>	<b>9.5%</b>	<b>66.7%</b>	<b>-6.2%</b>
Currency effects	-4.6%	-5.4%	-4.2%	-4.8%	0.0%	-4.6%
Consolidation changes	0.0%	0.0%	-0.3%	0.0%	0.0%	-0.1%
<b>Comparable Growth</b>	<b>-16.8%</b>	<b>15.6%</b>	<b>3.8%</b>	<b>14.3%</b>	<b>66.7%</b>	<b>-1.5%</b>

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

	Philips Lighting	Lamps	LED	Professional	Home	Others
<b>April to June 2016</b>						
Adjusted EBITA	161	117	29	46	(10)	(21)
Restructuring	(23)	1	(1)	(1)	(22)	-
Acquisition-related Charges	-	-	-	-	-	-
Other incidental items	(15)	-	-	-	-	(15)
EBITA	123	118	28	45	(32)	(36)
Amortization	(27)	(1)	(1)	(24)	(1)	-
<b>Income from operations (or EBIT)</b>	<b>96</b>	<b>117</b>	<b>27</b>	<b>21</b>	<b>(33)</b>	<b>(36)</b>

<b>April to June 2015</b>						
Adjusted EBITA	139	129	9	39	(19)	(19)
Restructuring	(9)	(7)	-	(3)	1	0
Acquisition-related Charges	(2)	-	-	(2)	-	-
Other incidental items	-	-	-	-	-	-
EBITA	128	122	9	33	(18)	(19)
Amortization	(28)	(0)	(1)	(26)	(1)	0
<b>Income from operations (or EBIT)</b>	<b>100</b>	<b>122</b>	<b>8</b>	<b>7</b>	<b>(18)</b>	<b>(19)</b>

	Philips Lighting	Lamps	LED	Professional	Home	Others
<b>January to June 2016</b>						
Adjusted EBITA	282	242	49	52	(22)	(39)
Restructuring	(41)	(10)	(1)	(5)	(24)	(1)
Acquisition-related Charges	(1)	-	-	(1)	-	-
Other incidental items	(17)	-	-	-	-	(17)
EBITA	223	232	48	46	(46)	(57)
Amortization	(56)	(2)	(2)	(50)	(2)	-
<b>Income from operations (or EBIT)</b>	<b>167</b>	<b>230</b>	<b>46</b>	<b>(4)</b>	<b>(48)</b>	<b>(57)</b>

<b>January to June 2015</b>						
Adjusted EBITA	249	252	14	51	(33)	(35)
Restructuring	(37)	(24)	(2)	(10)	(2)	1
Acquisition-related Charges	(3)	-	-	(3)	-	-
Other incidental items	-	-	-	-	-	-
EBITA	209	228	12	38	(35)	(34)
Amortization	(54)	-	(2)	(50)	(2)	-
<b>Income from operations (or EBIT)</b>	<b>155</b>	<b>228</b>	<b>10</b>	<b>(12)</b>	<b>(37)</b>	<b>(34)</b>

## Adjusted Gross Margin in millions of EUR

	April to June 2015	April to June 2016	January to June 2015	January to June 2016
Sales	1,849	1,734	3,576	3,436
Cost of Sales	(1,170)	(1,055)	(2,276)	(2,130)
<b>Gross Margin</b>	<b>679</b>	<b>679</b>	<b>1,300</b>	<b>1,306</b>
Restructuring	6	8	21	21
Acquisition-related Charges	0	0	-	-
Other incidental items	-	0	-	-
<b>Adjusted Gross Margin</b>	<b>685</b>	<b>687</b>	<b>1,321</b>	<b>1,327</b>
Adjusted Gross Margin %	37.0%	39.6%	36.9%	38.6%

## Adjusted SG&A expenses in millions of EUR

	April to June 2015	April to June 2016	January to June 2015	January to June 2016
Selling expenses	(440)	(429)	(870)	(859)
G&A expenses	(52)	(66)	(102)	(115)
<b>SG&amp;A expenses</b>	<b>(492)</b>	<b>(495)</b>	<b>(972)</b>	<b>(974)</b>
Restructuring	2	7	16	13
Acquisition-related Charges	2	0	3	1
Other incidental items	-	15	-	17
<b>Adjusted SG&amp;A expenses</b>	<b>(488)</b>	<b>(473)</b>	<b>(953)</b>	<b>(943)</b>
Adjusted SG&A expenses %	-26.4%	-27.3%	-26.6%	-27.4%

## Adjusted R&D expenses in millions of EUR

	April to June 2015	April to June 2016	January to June 2015	January to June 2016
<b>R&amp;D expenses</b>	<b>(88)</b>	<b>(90)</b>	<b>(176)</b>	<b>(180)</b>
Restructuring	1	8	-	7
Acquisition-related Charges	-	-	-	-
Other incidental items	-	-	-	-
<b>Adjusted R&amp;D expenses</b>	<b>(87)</b>	<b>(82)</b>	<b>(176)</b>	<b>(173)</b>
Adjusted R&D expenses %	-4.7%	-4.7%	-4.9%	-5.0%

## Composition of cash flows in millions of EUR

	April to June 2015	April to June 2016	January to June 2015	January to June 2016
Cash flow s from operating activities	(45)	82	139	22
Cash flow s from investing activities	(43)	(17)	(57)	(35)
<b>Cash flows before financing activities</b>	<b>(88)</b>	<b>65</b>	<b>82</b>	<b>(13)</b>
Cash flow s from operating activities	(45)	82	139	22
Net capital expenditures:				
Expenditures on development assets	(16)	(5)	(24)	(9)
Capital expenditures on property, plant and equipment	(17)	(17)	(37)	(33)
Proceeds from disposals of property, plant and equipment	(4)	-	(4)	2
<b>Free cash flow</b>	<b>(82)</b>	<b>60</b>	<b>74</b>	<b>(18)</b>

## Appendix C – Financial glossary

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

<b>Net debt</b>	Short-term debt, short-term loans payable (receivable) to Royal Philips, long-term debt less cash and cash equivalents
<b>Net leverage ratio</b>	The ratio of consolidated total net debt to adjusted consolidated EBITDA for the purpose of calculating the facility covenant for the term loan and revolving credit facility
<b>Other incidental charges</b>	Any item with an income statement impact (loss or gain) that is deemed to be both significant and not part of normal business activity. Other incidental items may extend over several quarters within the same financial year
<b>R&amp;D expenses</b>	Research and development expenses
<b>Restructuring costs</b>	The estimated costs of initiated reorganizations, the most significant of which have been approved by the Group, and which generally involve the realignment of certain parts of the industrial and commercial organization
<b>SG&amp;A expenses</b>	Selling, General and Administrative expenses
<b>Working capital</b>	The sum of Inventories, Receivables, Other current assets, Derivative financial assets, Income tax receivable less the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, Income tax payable and Other current liabilities