PHILIPS Lighting

Press release

October 20, 2016

Philips Lighting reports sales at €1.7 billion, continued profitability increase led by gross margin improvement; solid cash flow

Third quarter 2016 highlights

- Comparable sales of -3.3% to €1,745 million
- Total LED-based sales growth of 16%, now representing 56% of total sales
- Continued year-on-year improvement in operational profitability
  - adjusted EBITA of €175 million (Q3 2015: €139 million)
  - adjusted EBITA margin of 10.0% (Q3 2015: 7.5%)
- Net income of €51 million, including €30 million charges for brand license, separation costs and financial expenses not applicable in 2015
- Free cash flow of €164 million (Q3 2015: €80 million) particularly driven by improved profitability and working capital management

Eindhoven, the Netherlands – Philips Lighting (Euronext Amsterdam: LIGHT) today announced the company's third quarter results 2016. "Our operational profitability and free cash flow improved significantly in the third quarter, in line with our improvement path, despite softer sales," said CEO Eric Rondolat. "We will continue to implement sales improvement measures and introduce innovative propositions to strengthen our underlying growth profile. Our total LED-based sales grew by 16% in the quarter and now represent 56% of our revenues. Moreover our systems and services businesses saw healthy double-digit growth, driven by our continued extension of lighting into the Internet of Things."

Key figures

Third quarter				First nine months		
2015	2016	Change	*in € million, unless otherwise indicated*	2015	2016	change
1,844	1,745	-5.4%	Sales	5,420	5,181	-4.4%
		-3.3%	*Comparable sales growth*			*-2.0%*
657	692	5.3%	Adjusted gross margin	1,978	2,019	2.1%
139	175	25.9%	Adjusted EBITA	388	457	17.8%
124	120	-3.2%	EBITA	333	343	3.0%
97	93	-4.1%	Income from operations (EBIT)	252	260	3.2%
73	51	-30.1%	Net income	198	122	-38.4%
			% of sales			
35.6%	39.7%		Adjusted gross margin	36.5%	39.0%	
7.5%	10.0%		Adjusted EBITA margin	7.2%	8.8%	
80	164		Free cash flow	154	146	
	0.37		Basic EPS (€)		0.83	
38,814	34,251		Employees (FTE)	38,814	34,251	

Outlook

We are on track to deliver an increase in year-on-year operational profitability and robust cash flow for the full year 2016. We are more cautious about comparable sales growth, as we anticipate softer market conditions in the Middle East & Turkey as well as in some European countries to continue in the fourth quarter. This will likely delay our return to positive comparable sales growth beyond the fourth quarter into 2017.

Financial review

Third quarter				First nine months		
2015	2016	change	*in € million, except percentages*	2015	2016	change
1,844	**1,745**	**-5.4%**	**Sales**	**5,420**	**5,181**	**-4.4%**
		-3.3%	*Comparable sales growth*			*-2.0%*
		-2.0%	*Effects of currency movements*			*-2.3%*
657	**692**	**5.3%**	**Adjusted gross margin**	**1,978**	**2,019**	**2.1%**
-464	-467		Adjusted SG&A expenses	-1,417	-1,410	
-94	-81		Adjusted R&D expenses	-270	-254	
-558	**-548**	**1.8%**	**Adjusted indirect costs**	**-1,687**	**-1,664**	**1.4%**
139	**175**	**25.9%**	**Adjusted EBITA**	**388**	**457**	**17.8%**
-15	-55		Restructuring and other incidentals	-55	-114	
124	120	-3.2%	EBITA	333	343	3.0%
97	**93**	**-4.1%**	**Income from operations (EBIT)**	**252**	**260**	**3.2%**
2	-12		Net financial income/expense	-4	-55	
-25	-30		Income tax expense	-50	-84	
73	**51**	**-30.1%**	**Net income**	**198**	**122**	**-38.4%**
35.6%	39.7%		Adjusted gross margin (%)	36.5%	39.0%	
30.3%	31.4%		Adjusted indirect costs (%)	31.1%	32.1%	
7.5%	10.0%		Adjusted EBITA margin (%)	7.2%	8.8%	

Third quarter

Sales amounted to €1,745 million, a decline of 3.3% on a comparable basis. The decrease was mainly due to worsened market conditions in the Middle East & Turkey and softer performance in Germany and the United Kingdom, while Benelux and France realized solid growth. Continued sales growth in LED and Home was partly offset by a decline in Professional sales, while sales in Lamps continued to decrease - although at a slower pace than previous quarters.

Adjusted gross margin increased to €692 million, largely driven by operational and productivity savings and partly offset by price erosion. As a percentage of sales, adjusted gross margin improved by 410 basis points to 39.7%. Adjusted indirect costs decreased to €548 million, driven by our cost reduction program and despite a €10 million charge for the brand license fee. Adjusted EBITA increased to €175 million, resulting in an improved adjusted EBITA margin of 10.0%.

Restructuring and other incidentals amounted to €55 million. Restructuring costs were €49 million, while other incidental items included a net charge of €6 million for separation costs. Restructuring charges for 2016 are expected to be in line with 1.5-2.0% of sales as previously indicated.

Net income of €51 million includes €30 million in charges for the brand license fee, net separation costs and financial expenses, which were not applicable in 2015. Financial expenses were related to the new financing structure of the company following its separation from Royal Philips.

Business highlights

- **LED:** Philips Lighting reached a technological breakthrough as it developed a high lumen LED alternative for popular high wattage CFLi bulbs. These LED retrofit bulbs, which put out up to 3,000 lumen and fit existing fixture and luminaires, are now available in Asia and Latin America.
- **Professional/Architectural:** The 220-meter tall Warsaw Spire skyscraper in Poland, including over 88,000 LED light points, was lighted with Philips Color Kinetics technology. The project is the largest installation of Philips Color Kinetics technology in Central Europe.
- **Professional/Arena:** Series A champion Juventus adopted ArenaVision LED pitch lighting in its Juventus Stadium in Turin, Italy. The system can also be used to produce pre-match light shows.
- **Professional/Infrastructure:** Philips Lighting partnered with the city of Los Angeles to help improve public safety and expand city services. New acoustic sensing software integrated into Philips City Touch light poles will reduce emergency response time by detecting the sound of a vehicle collision and relaying information instantly to emergency services.
- **Professional/OEM:** Philips Lighting opened its indoor positioning technology for shops and stores to other lighting products by introducing the YellowDot program. The program allows manufacturers to test and certify their LED luminaires to work with Philips Lighting's indoor positioning technology.
- **Home**: The Philips Hue Motion Sensor was introduced, enabling motion control of the connected lighting system, while expansion of Philips Hue partnerships continued with agreements to add Huawei Technologies' "Ocean Connect" and an expansion of functions that can be voice controlled with Amazon Alexa.

Operational performance by business group

Lamps

Third quarter				First nine months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
671	570	-15.1%	Sales	2,125	1,757	-17.3%
		-13.3%	*Comparable sales growth (%)*			*-14.9%*
104	120	15.4%	Adjusted EBITA	356	362	1.7%
15.5%	21.1%		*Adjusted EBITA margin (%)*	16.8%	20.6%	
92	110	19.6%	EBITA	320	342	6.9%

Third quarter

Sales amounted to €570 million, a decline of 13.3% on a comparable basis, showing an improvement in comparison to previous quarters. Adjusted EBITA increased to €120 million, mainly driven by manufacturing footprint rationalization, procurement and productivity savings. Adjusted EBITA margin improved to 21.1%. Restructuring costs amounted to €10 million, primarily related to ongoing rationalization of the manufacturing footprint.

As part of the business strategy, active portfolio management led to the successful divestment of the quartz and special glass business in the Netherlands.

This performance supports our strategy to continue to extract value from the conventional business.

LED

Third quarter				First nine months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
345	377	9.3%	Sales	934	1,078	15.4%
		11.5%	*Comparable sales growth (%)*			*18.1%*
25	40	60.0%	Adjusted EBITA	39	89	128.2%
7.2%	10.6%		*Adjusted EBITA margin (%)*	4.2%	8.3%	
25	40	60.0%	EBITA	37	88	137.8%

Third quarter

Sales were €377 million, resulting in comparable sales growth of 11.5%. While volume growth remained strong, sales grew less rapidly versus previous quarters due to price erosion and mix impact. Softer growth experienced in the Americas in the second quarter was prolonged in the third quarter. In addition, some countries in Europe showed slower sales growth, particularly those with high LED penetration. The Rest of the World showed robust growth.

Adjusted EBITA increased to €40 million, driven by material procurement savings, operational leverage and indirect cost reduction, partly offset by price erosion. This led to a significant improvement of adjusted EBITA margin at 10.6%.

Professional

Third quarter				First nine months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
706	664	-5.9%	Sales	2,005	1,949	-2.8%
		-3.8%	*Comparable sales growth (%)*			*-0.7%*
49	42	-14.3%	Adjusted EBITA	100	94	-6.0%
6.9%	6.3%		*Adjusted EBITA margin (%)*	5.0%	4.8%	
48	1	-97.9%	EBITA	87	47	-46.0%

Third quarter

Sales declined 3.8% on a comparable basis to €664 million, affected by worsened market conditions in the Middle East & Turkey. Excluding the Middle East & Turkey comparable sales growth was positive. Demand was also affected by a softer outdoor market in some European countries, while the Americas posted growth.

Adjusted EBITA came in at €42 million. Procurement savings and production efficiency improvements were offset by lower sales and write downs on bad debt in the Middle East & Turkey. The adjusted EBITA margin amounted to 6.3%. Restructuring charges amounted to €41 million, mainly related to a simplification of business structures, reduction of indirect costs and footprint rationalization.

Home

Third quarter				First nine months		
2015	2016	change	*in € million, unless otherwise indicated*	2015	2016	change
120	130	8.3%	Sales	348	381	9.5%
		11.0%	*Comparable sales growth (%)*			*12.0%*
-17	-1	94.1%	Adjusted EBITA	-50	-23	54.0%
-14.2%	-0.8%		*Adjusted EBITA margin (%)*	-14.4%	-6.0%	
-19	1	105.3%	EBITA	-55	-45	18.2%

Third quarter

Sales in the third quarter increased to €130 million as comparable sales improved by 11.0%. This double-digit growth was supported by the Home Luminaires and Home Systems businesses. All markets contributed to growth.

Adjusted EBITA neared the break-even point at €-1 million, showing a major year-on-year improvement. This was attributable to operational efficiency gains, procurement savings and operational leverage.

Other

Adjusted EBITA amounted to €-26 million in the quarter (Q3 2015: €-22 million) consisting primarily of group enabling function costs. The decline was mostly attributable to environmental provisions related to legacy sites. Other incidental items not part of the adjusted EBITA included a charge of €19 million for separation costs and a gain of €13 million related to a release of provisions with Royal Philips originating from the separation.

Sales by market

Third quarter					First nine months			
2015	2016	Change	CSG*	*in € million, except percentages*	2015	2016	change	CSG*
558	530	-5.0%	-3.2%	Europe	1,638	1,575	-3.8%	-2.6%
586	560	-4.4%	-1.9%	Americas	1,723	1,664	-3.4%	-0.5%
570	527	-7.5%	-5.4%	Rest of the World	1,673	1,556	-7.0%	-3.5%
130	128	-1.5%	0.0%	Global businesses	386	386	0.0%	-0.2%
1,844	**1,745**	**-5.4%**	**-3.3%**	**Total**	**5,420**	**5,181**	**-4.4%**	**-2.0%**

* *CSG: Comparable Sales Growth*

Third quarter

The ongoing transformation from conventional to LED lighting is reflected in all markets globally. Sales in **Europe** declined 3.2% on a comparable basis, with country-level variations. Sales in Germany and the United Kingdom were lower, while Benelux and France realized solid growth. In the **Americas**, sales declined 1.9% on a comparable basis due to conventional lighting. Sales on a comparable basis for the **Rest of the World** declined 5.4%, affected by worsened market conditions in the Middle East & Turkey, partly offset by growth in India and China.

Financial condition

Working capital

in € million, unless otherwise indicated	31 Dec '15	30 Jun '16	30 Sep '16
Inventories	988	1,030	999
Receivables	1,599	1,512	1,485
Accounts and notes payable	-1,051	-934	-935
Accrued liabilities	-459	-416	-471
Other	-245	-297	-269
Working capital	**832**	**895**	**809**
As % of LTM* sales	11.1%	12.2%	11.2%

* *LTM: Last Twelve Months*

Third quarter

Working capital performance confirms the structural improvements achieved in the past quarters. In the third quarter working capital decreased by €86 million to €809 million, mainly driven by reduced inventories and receivables and an increase in accrued liabilities.

Cash flow analysis

Third quarter			First nine months	
2015	2016	*in € million*	2015	2016
97	93	Income from operations (EBIT)	252	260
83	72	Depreciation and amortization	230	218
-22	87	Change in working capital	-102	-51
-25	-21	Net capex	-90	-61
-25	7	Change in provisions	-82	-51
1	-14	Interest paid	0	-21
-8	-36	Income taxes paid	-25	-73
-21	-24	Other	-29	-75
80	**164**	**Free cash flow**	**154**	**146**

Third quarter

Free cash flow improved to €164 million, primarily attributable to improved profitability and working capital management, partly offset by increased interest payments due to a new financing structure and higher taxes. Free cash flow was negatively impacted by separation costs of €19 million.

Net debt

in € million	31 Dec '15	30 Jun '16	30 Sep '16
Short-term debt	86	124	151
Long-term debt	2	1,202	1,194
Gross debt	88	1,326	1,345
Short-term loans receivable from Royal Philips	-	69	30
Cash and cash equivalents	83	462	701
Net debt	**5**	**795**	**614**

Third quarter

The reduction of net debt by €181 million to €614 million was mainly driven by free cash flow. The cash position increased to €701 million. Group equity increased to €2,583 million at the end of the third quarter (Q2 2016: €2,564 million), primarily in connection with net income.

Other information

Appendix A – Selection of financial statements
Appendix B – Reconciliation of non-IFRS Financial Measures
Appendix C – Financial Glossary

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Conference call and audio webcast

Eric Rondolat (CEO), Stéphane Rougeot (CFO) and René van Schooten (member of the Board of Management and Business Group Leader of Lamps) will host a conference call for analysts at 10:00 a.m. CEST to discuss third quarter results. A live audio webcast of the conference call will be available via the Philips Lighting Investor Relations website: http://www.lighting.philips.com/main/investor/

Financial Calendar 2017

23 January 2017	Fourth quarter and annual results 2016

For further information, please contact:

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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 34,000 employees in over 70 countries. News from Philips Lighting is located at http://www.newsroom.lighting.philips.com

Important Information

Forward-Looking Statements and Risks & Uncertainties

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

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, impact of the Group's operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see "Risk Factors" 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 the Company's semi-annual report for the first six months ended 30 June 2016.

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

Market and Industry Information

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

Non-IFRS Financial Measures

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

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Appendix A – Selection of financial statements

A. CONDENSED CONSOLIDATED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated

	Q3		January to September	
	2015 unaudited	**2016 unaudited**	**2015 unaudited**	**2016 unaudited**
Sales	1,844	1,745	5,420	5,181
Cost of sales	(1,199)	(1,097)	(3,475)	(3,227)
Gross margin	**645**	**648**	**1,945**	**1,954**
Selling expenses	(404)	(423)	(1,274)	(1,282)
Research and development expenses	(94)	(86)	(270)	(266)
General and administrative expenses	(63)	(63)	(165)	(178)
Impairment of goodwill	(1)	-	(1)	(2)
Other business income	16	21	28	45
Other business expenses	(2)	(4)	(11)	(11)
Income from operations	**97**	**93**	**252**	**260**
Financial income	2	2	3	6
Financial expenses	-	(14)	(7)	(61)
Income before taxes	**99**	**81**	**248**	**205**
Income tax expense	(25)	(30)	(50)	(84)
Income after taxes	**74**	**51**	**198**	**121**
Results relating to investments in associates	(1)	-	-	1
Net income	**73**	**51**	**198**	**122**
Attribution of net income for the period:				
Net income attributable to shareholders of Philips Lighting	70	55	188	125
Net income attributable to non-controlling interests	3	(4)	10	(3)
Earnings per common share attributable to shareholders				
Weighted average number of common shares outstanding used for calculation (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	-	0.83
- diluted	-	0.37	-	0.83

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B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

	Q3		January to September	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
Net income for the period	**73**	**51**	**198**	**122**
Total of items that are or may be reclassified to profit or loss				
Currency translation differences:				
Net current period change, before tax	(15)	(34)	16	(69)
Income tax effect	-	-	-	-
Total currency translation differences:	(15)	(34)	16	(69)
Cash flow hedges:				
Net current period change, before tax	4	1	(1)	1
Income tax effect	(1)	-	-	-
Total cash flow hedges:	3	1	(1)	1
Other comprehensive (loss) income for the period	**(12)**	**(33)**	**15**	**(68)**
Total comprehensive income for the period	**61**	**18**	**213**	**54**
Total comprehensive income (loss) attributable to:				
Shareholders of Philips Lighting	60	23	195	60
Non-controlling interests	1	(5)	18	(6)

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C. CONDENSED CONSOLIDATED BALANCE SHEET

in millions of EUR unless otherwise stated

	31 December 2015	30 September 2016 unaudited
Non-current assets		
Property, plant and equipment	634	565
Goodwill	1,844	1,794
Intangible assets, excluding goodwill	856	753
Non-current receivables	20	16
Investments in associates	23	23
Other non-current financial assets	8	14
Deferred tax assets	259	479
Other non-current assets	15	29
Total non-current assets	**3,659**	**3,673**
Current assets		
Inventories	988	999
Other current assets	46	64
Derivative financial assets	9	21
Income tax receivable	25	41
Receivables	1,599	1,485
Assets classified as held for sale	34	23
Short-term loans receivable from Royal Philips	-	30
Cash and cash equivalents	83	701
Total current assets	**2,784**	**3,364**
Total assets	**6,443**	**7,037**
Equity		
Shareholders' equity	3,513	2,482
Non-controlling interest	103	101
Group equity	**3,616**	**2,583**
Non-current liabilities		
Long-term debt	2	1,194
Long-term provisions	350	892
Deferred tax liabilities	126	39
Other non-current liabilities	159	152
Total non-current liabilities	**637**	**2,277**
Current liabilities		
Short-term debt	86	151
Short-term loans payable to Royal Philips	-	-
Derivative financial liabilities	7	23
Income tax payable	6	53
Account and notes payable	1,051	935
Accrued liabilities	459	471
Short-term provisions	263	220
Liabilities associated with assets classified held for sale	6	5
Other current liabilities	312	319
Total current liabilities	**2,190**	**2,177**
Total liabilities and group equity	**6,443**	**7,037**

D. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions of EUR unless otherwise stated

	Q3		January to September	
	2015 unaudited	2016 unaudited	2015 unaudited	2016 unaudited
Cash flows from operating activities				
Net income (loss)	73	51	198	122
Adjustments to reconcile net income (loss) to net cash provided by operating activities	106	107	293	354
Depreciation, amortization and impairments of non-financial assets	83	72	230	218
Impairment of non-current financial assets	-	-	4	4
Net gain on sale of assets	(14)	(4)	(15)	(4)
Interest income	(2)	(2)	(3)	(5)
Interest expense on debt, borrowings and other liabilities	1	5	3	41
Income tax expense	25	30	50	84
Share-based compensation	13	6	24	16
Decrease (increase) in working capital	(22)	87	(102)	(51)
Decrease (increase) in receivables and other current assets	(14)	21	(80)	55
Decrease (increase) in inventories	(6)	20	(167)	(35)
Increase (decrease) in accounts payable, accrued and other current liabilities	(2)	46	145	(71)
Increase (decrease) in non-current receivables, other assets and other liabilities	(28)	(16)	(42)	(72)
Increase (decrease) in provisions	(25)	7	(82)	(51)
Interest paid	1	(14)	-	(21)
Income taxes paid	(8)	(36)	(25)	(73)
Other items	8	(1)	4	(1)
Net cash provided by operating activities	**105**	**185**	**244**	**207**
Cash flows from investing activities				
Net capital expenditures	(25)	(21)	(90)	(61)
Additions of intangible assets	(6)	(10)	(30)	(19)
Capital expenditures on property, plant and equipment	(36)	(18)	(73)	(51)
Proceeds from disposal of property, plant and equipment	17	7	13	9
Proceeds from other non-current financial assets	4	-	21	-
Purchases of other non-current financial assets	3	(3)	-	(7)
Proceeds from sale of interests in businesses, net of cash disposed of	(2)	(4)	(8)	5
Net cash used for investing activities	**(20)**	**(28)**	**(77)**	**(63)**
Cash flows from financing activities				
Funding by (distribution to) Royal Philips	(95)	52	(132)	(1,443)
Dividend paid	-	-	-	(10)
Capital contribution from Royal Philips	-	-	-	692
Proceeds from issuance (payments) of debt	9	27	(24)	1,230
Net cash (used for) provided by financing activities	**(86)**	**79**	**(156)**	**469**
Net cash provided by (used in) operations	**(1)**	**236**	**11**	**613**
Effect of changes in exchange rates on cash and cash equivalents	3	3	(4)	5
Cash and cash equivalents at the beginning of the period	80	462	75	83
Cash and cash equivalents at the end of the period	**82**	**701**	**82**	**701**

Appendix B – Reconciliation of non-IFRS Financial Measures

Sales growth composition

Sales growth composition in % for the businesses

	Q3			
	comparable growth	currency effects	consolidation changes	nominal growth
2016 vs 2015				
Lamps	-13.3	-1.8	0.0	-15.1
LED	11.5	-2.2	0.0	9.3
Professional	-3.8	-1.9	-0.2	-5.9
Home	11.0	-2.7	0.0	8.3
Others	100.0	0.0	0.0	100.0
Total	**-3.3**	**-2.0**	**-0.1**	**-5.4**

	January to September			
	comparable growth	currency effects	consolidation changes	nominal growth
2016 vs 2015				
Lamps	-14.9	-2.4	0.0	-17.3
LED	18.1	-2.7	0.0	15.4
Professional	-0.7	-1.9	-0.2	-2.8
Home	12.0	-2.5	0.0	9.5
Others	100.0	0.0	0.0	100.0
Total	**-2.0**	**-2.3**	**-0.1**	**-4.4**

Sales growth composition in % for the markets

	Q3			
	comparable growth	currency effects	consolidation changes	nominal growth
2016 vs 2015				
Europe	-3.2	-1.8	0.0	-5.0
Americas	-1.9	-2.5	0.0	-4.4
Rest of the World	-5.4	-1.8	-0.3	-7.5
Global businesses	0.0	-1.5	0.0	-1.5
Total	**-3.3**	**-2.0**	**-0.1**	**-5.4**

	January to September			
	comparable growth	currency effects	consolidation changes	nominal growth
2016 vs 2015				
Europe	-2.6	-1.0	-0.2	-3.8
Americas	-0.5	-2.9	0.0	-3.4
Rest of the World	-3.5	-3.3	-0.2	-7.0
Global businesses	-0.2	-0.8	1.0	0.0
Total	**-2.0**	**-2.3**	**-0.1**	**-4.4**

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

July to September 2016	Philips Lighting	Lamps	LED	Professional	Home	Others
Adjusted EBITA	175	120	40	42	(1)	(26)
Restructuring	(49)	(10)	(0)	(41)	2	0
Acquisition-related Charges	(0)	-	-	(0)	-	-
Other incidental items	(6)	-	-	-	-	(6)
EBITA	120	110	40	1	1	(32)
Amortization	(27)	(0)	(1)	(25)	(1)	(0)
Income from operations (or EBIT)	**93**	**110**	**39**	**(24)**	**(0)**	**(32)**
July to September 2015						
Adjusted EBITA	139	104	25	49	(17)	(22)
Restructuring	(15)	(12)	-	(1)	(2)	-
Acquisition-related Charges	-	-	-	-	-	-
Other incidental items	-	-	-	-	-	-
EBITA	124	92	25	48	(19)	(22)
Amortization	(27)	(1)	(1)	(24)	(1)	-
Income from operations (or EBIT)	**97**	**91**	**24**	**24**	**(20)**	**(22)**

January to September 2016	Philips Lighting	Lamps	LED	Professional	Home	Others
Adjusted EBITA	457	362	89	94	(23)	(65)
Restructuring	(90)	(20)	(1)	(46)	(22)	(1)
Acquisition-related Charges	(1)	-	-	(1)	-	-
Other incidental items	(23)	-	-	-	-	(23)
EBITA	343	342	88	47	(45)	(89)
Amortization	(83)	(2)	(3)	(75)	(3)	-
Income from operations (or EBIT)	**260**	**340**	**85**	**(28)**	**(48)**	**(89)**
January to September 2015						
Adjusted EBITA	388	356	39	100	(50)	(57)
Restructuring	(52)	(36)	(2)	(10)	(5)	1
Acquisition-related Charges	(3)	-	-	(3)	-	-
Other incidental items	-	-	-	-	-	-
EBITA	333	320	37	87	(55)	(56)
Amortization	(81)	(1)	(3)	(75)	(2)	-
Income from operations (or EBIT)	**252**	**319**	**34**	**12**	**(57)**	**(56)**

Adjusted Gross Margin in millions of EUR unless otherwise stated

	July to September 2015	July to September 2016	January to September 2015	January to September 2016
Sales	1,844	1,745	5,420	5,181
Cost of Sales	(1,199)	(1,097)	(3,475)	(3,227)
Gross Margin	**645**	**648**	**1,945**	**1,954**
Restructuring	12	44	33	65
Acquisition-related Charges	-	0	-	-
Other incidental items	-	0	-	-
Adjusted Gross Margin	**657**	**692**	**1,978**	**2,019**
Adjusted Gross Margin %	*35.6%*	*39.7%*	*36.5%*	*39.0%*

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

	July to September 2015	July to September 2016	January to September 2015	January to September 2016
Selling expenses	(404)	(423)	(1,274)	(1,282)
G&A expenses	(63)	(63)	(165)	(178)
SG&A expenses	**(467)**	**(486)**	**(1,439)**	**(1,460)**
Restructuring	3	(0)	19	13
Acquisition-related Charges	-	0	3	1
Other incidental items	-	19	-	36
Adjusted SG&A expenses	**(464)**	**(467)**	**(1,417)**	**(1,410)**
Adjusted SG&A expenses %	*-25.2%*	*-26.8%*	*-26.1%*	*-27.2%*

Adjusted R&D expenses in millions of EUR

	July to September 2015	July to September 2016	January to September 2015	January to September 2016
	-	-	-	-
	-	-	-	-
R&D expenses	**(94)**	**(86)**	**(270)**	**(266)**
Restructuring	-	5	-	12
Acquisition-related Charges	-	-	-	-
Other incidental items	-	-	-	-
Adjusted R&D expenses	**(94)**	**(81)**	**(270)**	**(254)**
Adjusted R&D expenses %	*-5.1%*	*-4.6%*	*-5.0%*	*-4.9%*

Appendix C – Financial glossary

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

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