PHILIPS Lighting

Press release

April 21, 2017

Philips Lighting reports improvement in comparable sales growth, continued increase in operational profitability and free cash flow

First quarter 2017 highlights

- Sales of EUR 1,690 million, with comparable sales of -0.8% (Q1 2016: -1.3%)
- Total LED-based sales growth of 19%, now representing 61% of total sales
- Continued year-on-year improvement in operational profitability
  - Adjusted EBITA of EUR 142 million (Q1 2016: EUR 121 million)
  - Adjusted EBITA margin improvement of 130 basis points to 8.4% (Q1 2016: 7.1%)
- Net income of EUR 61 million (Q1 2016: EUR 14 million)
- Free cash flow of EUR 2 million (Q1 2016: EUR -78 million)

Eindhoven, the Netherlands – Philips Lighting (Euronext Amsterdam: LIGHT) today announced the company's 2017 first quarter results. "Our comparable sales growth improved in comparison to previous quarters, driven by double-digit growth in our business groups LED and Home and a return to growth in Europe and the Rest of the World, despite ongoing challenging conditions in some markets. We continued to increase our operational profitability and free cash flow compared to the first quarter of last year, demonstrating the rigorous implementation of our strategy," said CEO Eric Rondolat. "These results reinforce our confidence that the company is well positioned to achieve its 2017 outlook and medium term goals."

Key figures

	First Quarter		
in € million, unless otherwise indicated[1]	2016	2017	change
Sales	1,702	1,690	-0.7%
Comparable sales growth			*-0.8%*
Adjusted gross margin	640	669	4.5%
Adjusted EBITA	121	142	17.4%
EBITA	100	122	22.0%
Income from operations (EBIT)	71	94	32.4%
Net income	14	61	335.7%
% of sales			
Adjusted gross margin	37.6%	39.6%	
Adjusted EBITA margin	7.1%	8.4%	
Free cash flow	-78	2	
Basic EPS (€)		0.43	
Employees (FTE)	36,350	34,379	

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

Outlook

We are on track to further improve our Adjusted EBITA margin by approximately 50-100 basis points in 2017, in line with our medium term outlook to gradually improve the Adjusted EBITA margin to 11-13%, and to deliver solid free cash flow. While we remain cautious given global economic uncertainty, we are committed to our ambition to return to positive comparable sales growth in the course of this year.

Financial review

	First Quarter		
in € million, except percentages	2016	2017	change
Sales	**1,702**	**1,690**	**-0.7%**
Comparable sales growth			*-0.8%*
Effects of currency movements			*1.2%*
Consolidation changes			*-1.1%*
Adjusted gross margin	**640**	**669**	**4.5%**
Adjusted SG&A expenses	-470	-483	
Adjusted R&D expenses	-91	-86	
Adjusted indirect costs	**-561**	**-569**	**-1.4%**
Adjusted EBITA	**121**	**142**	**17.4%**
Adjusted items	-21	-20	
EBITA	100	122	22.0%
Income from operations (EBIT)	**71**	**94**	**32.4%**
Net financial income/expense	-17	-11	
Income tax expense	-40	-23	
Net income	**14**	**61**	**335.7%**
Adjusted gross margin (%)	37.6%	39.6%	
Adjusted indirect costs (%)	33.0%	33.7%	
Adjusted EBITA margin (%)	7.1%	8.4%	

First quarter

Sales amounted to EUR 1,690 million. On a comparable basis, the decline in sales slowed to -0.8%, an improvement compared to previous quarters. Europe and the Rest of the World delivered growth, while the Americas was impacted by an accelerated decline in conventional lighting and softer market conditions. Business groups LED and Home achieved double-digit growth, driving total LED-based sales growth of 19%. Total LED based-sales now represent 61% of total sales.

Adjusted gross margin amounted to EUR 669 million. As a percentage of sales, adjusted gross margin improved by 200 basis points to 39.6%, largely driven by procurement savings and currency impact, partly offset by price erosion. Adjusted indirect costs increased by EUR 8 million, to EUR 569 million, primarily due to currency impact and an additional month of the brand license fee in the quarter, while last year included a pension gain. Adjusted EBITA increased to EUR 142 million, resulting in a 130 basis point improvement of the Adjusted EBITA margin to 8.4%. Restructuring and incidental items amounted to EUR 20 million. Restructuring costs were EUR 10 million, while incidental items included a charge of EUR 9 million in separation costs.

Net income increased from EUR 14 million to EUR 61 million, driven by improved operational profitability and a decrease of both financial and income tax expenses. Financial expenses in the first quarter of last year were impacted by higher foreign currency exchange rate losses. The decrease in income tax expenses was primarily due to non-recurring tax charges related to the separation from Royal Philips last year.

Business highlights for the first quarter

- **LED:** The Philips T5 LED tube expanded the Philips MASTER LED tubes portfolio as part of the company's continuous innovation in LED products to outgrow the market. The energy-saving, high-quality T5 LED tubes offer safe and easy installation with a simple lamp-for-lamp replacement.
- **Professional:** The Philips Lightpole Site Slim, a new connected street light for Europe, was introduced with Ericsson. It offers cities the benefit of both energy-efficient LED lighting and high-speed LTE/4G broadband connectivity, without cluttering the cityscape. The offering helps to capture adjacent value through new Services business models.
- **Professional:** Continuing our leadership in Systems and Services, Philips CityTouch added over 80 projects in the first quarter, bringing the total number of installations to 852 projects in 37 countries since 2012. Philips CityTouch allows municipalities to monitor, manage and measure their connected street lighting infrastructure through simple web applications and can help reduce energy consumption by up to 70%.
- **Professional:** The EDEKA Paschmann supermarket was Germany's first to adapt Philips Lighting's indoor positioning lighting system, signaling continued Systems leadership in the retail segment. The system helps shoppers locate items with an accuracy of 30 centimeters, with the goal of enhancing the shopper experience and improving retailer sales.
- **Home:** The Philips Hue white and color ambiance candle light bulb was introduced, strengthening Philips Hue's position as the most extensive connected home lighting system. The candle, available in Europe by end April and in North America later this year, means Philips Hue can be used in over 80% of light sockets in households around the world.
- **Home:** The new portable outdoor light, Philips Abelia LED lantern, was introduced as part of the company's continuous innovation in LED products. The introduction comes as consumers are increasingly looking for versatile outdoor lighting options, especially in urban places, where space is at a premium.

Operational performance by business group

Lamps

	First Quarter		
in € million, unless otherwise indicated	2016	2017	change
Sales	615	498	-19.1%
Comparable sales growth (%)			*-17.9%*
Adjusted EBITA	125	114	-8.8%
Adjusted EBITA margin (%)	20.3%	22.9%	
EBITA	114	111	
Income from operations (EBIT)	113	111	

First quarter

Sales amounted to EUR 498 million, a decline of 17.9% on a comparable basis. Adjusted EBITA decreased to EUR 114 million, with an improvement of the Adjusted EBITA margin by 260 basis points to 22.9%. Excluding a gain on the sale of real estate, the Adjusted EBITA margin would have been 20.9%, reflecting the successful implementation of our "last man standing" strategy.

LED

in € million, unless otherwise indicated	First Quarter 2016	2017	change
Sales	355	422	18.8%
Comparable sales growth (%)			*16.7%*
Adjusted EBITA	20	39	95.0%
Adjusted EBITA margin (%)	5.6%	9.2%	
EBITA	20	39	
Income from operations (EBIT)	19	38	

First quarter

Sales were EUR 422 million, resulting in comparable sales growth of 16.7%. Volumes were higher due to continued price erosion and mix impact. All regions contributed to growth, while countries with low LED penetration rates showed higher growth. The comparable sales trend in the Americas improved compared to previous quarters, benefiting from measures taken. Adjusted EBITA increased to EUR 39 million, driven by operational leverage and procurement savings, off-setting price reductions and mix impact. Adjusted EBITA margin increased by 360 basis points to 9.2%. Excluding the impact of incidentals this quarter, the Adjusted EBITA margin improved by 290 basis points.

Professional

in € million, unless otherwise indicated	First Quarter 2016	2017	change
Sales	601	621	3.3%
Comparable sales growth (%)			*2.5%*
Adjusted EBITA	6	13	116.7%
Adjusted EBITA margin (%)	1.0%	2.1%	
EBITA	1	9	
Income from operations (EBIT)	-25	-17	

First quarter

Sales amounted to EUR 621 million, an increase of 2.5% on a comparable basis. Europe and the Rest of the World showed growth. The Americas had a soft start, but the order backlog improved during the quarter. Adjusted EBITA increased by EUR 7 million to EUR 13 million. The Adjusted EBITA margin increased by 110 basis points to 2.1%. Excluding the impact of incidentals, most notably the EUR 12 million gain on the sale of receivables in 2016, the year-on-year margin improvement was 280 basis points. Procurement savings, production efficiency improvements and mix improvement were partly offset by write-downs on bad debt in Saudi Arabia, although to a lesser extent than experienced in previous quarters.

Home

in € million, unless otherwise indicated	First Quarter 2016	2017	change
Sales	124	148	20.0%
Comparable sales growth (%)			*20.6%*
Adjusted EBITA	-12	3	
Adjusted EBITA margin (%)	-9.7%	2.0%	
EBITA	-14	1	
Income from operations (EBIT)	-15	0	

First quarter

Sales in the first quarter increased to EUR 148 million as comparable sales grew by 20.6%, primarily driven by the Home Systems business. All market groups contributed to growth. At EUR 3 million, Adjusted EBITA turned positive in the first three months of the year, showing the benefits of sales growth and cost reduction actions taken in 2016. The Adjusted EBITA margin improved from -9.7% last year to a positive 2.0%. The performance of Home illustrates the success of our connected lighting systems strategy.

Other

First quarter

Adjusted EBITA decreased to EUR -27 million in the quarter (Q1 2016: EUR -18 million). The decrease of EUR 9 million can primarily be explained by a pension gain in the first quarter last year and additional expenses to support innovation in the first quarter of this year. Adjusted EBITA represents amounts not allocated to the operating segments and is mainly comprised of certain costs related to group enabling functions and activities to drive innovation. EBITA amounted to EUR -38 million (Q1 2016: EUR -21 million), including a charge of EUR 9 million for separation costs (Q1 2016: EUR 2 million).

Sales by market

	First Quarter			
in € million, except percentages	2016	2017	change	CSG*
Europe	533	553	3.8%	4.9%
Americas	555	534	-3.7%	-7.0%
Rest of the World	486	500	3.0%	1.9%
Global businesses	128	103	-20.0%	-9.1%
Total	**1,702**	**1,690**	**-0.7%**	**-0.8%**

* *CSG: Comparable Sales Growth*

First quarter

Sales in Europe increased 4.9% on a comparable basis, with all countries contributing to this performance. In the Americas, sales declined 7.0% on a comparable basis due to an accelerated decline in conventional lighting and softer market conditions. Sales on a comparable basis for the Rest of the World increased 1.9%, particularly driven by a solid performance in China and India, offsetting the impact of challenging macro-economic conditions in some markets.

Financial condition

Working capital

in € million, unless otherwise indicated	31 Mar '16	31 Dec '16	31 Mar '17
Inventories	1,010	886	982
Receivables	1,512	1,600	1,472
Accounts and notes payable	-912	-1,024	-1,034
Accrued liabilities	-404	-502	-450
Other	-341	-298	-275
Working capital	**865**	**662**	**695**
As % of LTM* sales	11.6%	9.3%	9.8%

* *LTM: Last Twelve Months*

First quarter

Working capital improved year-on-year by EUR 170 million to EUR 695 million. Working capital represents 9.8% of sales, compared to 11.6% at the end of March 2016, reflecting sustained improvements achieved last year.

Cash flow analysis

in € million	First Quarter 2016	2017
Income from operations (EBIT)	71	94
Depreciation and amortization	76	66
Change in working capital	-102	-49
Net capex	-18	-1
Change in provisions	-31	-36
Interest paid	-1	-3
Income taxes paid	-17	-28
Other	-56	-41
Free cash flow	**-78**	**2**

First quarter

Free cash flow improved by EUR 80 million to EUR 2 million, primarily attributable to improved profitability, lower cash outflow on working capital and a reduced net capex, partly offset by higher taxes. Free cash flow also includes a restructuring pay-out of EUR 29 million (Q1 2016: EUR 38 million) and separation costs of EUR 6 million (Q1 2016: EUR 0 million), while last year's free cash flow included cash outflow of EUR 45 million related to pension liability de-risking in the US.

Net debt

in € million	31 Dec '16	31 Mar '17
Short-term debt	155	146
Short-term loans payable to Royal Philips	2	0
Long-term debt	1,224	1,214
Gross debt	1,381	1,360
Short-term loans receivable from Royal Philips	0	9
Cash and cash equivalents	1,040	935
Net debt	341	416

First quarter

Net debt amounted to EUR 416 million, an increase of EUR 75 million. Net debt was impacted by EUR 82 million due to our participation in the share disposal by our main shareholder in February. The acquired 3.5 million shares will be cancelled in the course of the second quarter. As a consequence, the cash position decreased to EUR 935 million. Total equity decreased to EUR 2,746 million at the end of the first quarter (Q4 2016: EUR 2,808 million), primarily due to the share purchase and currency translation result, partly offset by positive net income. Total equity minus net debt amounted to EUR 2,330 million.

Other information

Appendix A – Financial statement information
Appendix B – Reconciliation of non-IFRS Financial Measures
Appendix C – Financial Glossary

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Conference call and audio webcast

Eric Rondolat (CEO) and Stéphane Rougeot (CFO) will host a conference call for investors and analysts at 10:00 a.m. CET to discuss first 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

9 May 2017	Annual General Meeting of Shareholders
21 July 2017	Half year results 2017
19 October 2017	Third quarter results 2017

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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 2016 sales of EUR 7.1 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 and Risk Management" in Chapter 12 of the Annual Report 2016 for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Company's Annual Report 2016.

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 "Chapter 17 Reconciliation of non-IFRS measures" in the Annual Report 2016.

Presentation

All amounts are in millions of euros unless otherwise stated. All reported data is unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2016.
As part of the financial reporting improvement process, the presentation of the line item "Results relating to investments in associates" was moved into the subtotal "Income before taxes" in the Condensed consolidated statements of income. This change did not impact the income of operations or financial position.
In addition, we have simplified our Q1 and Q3 reporting by excluding the cash flow statement. In our semi-annual and annual reporting we will continue to present this statement. Cash flow analysis is provided in the Financial condition section of this document.

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 – Financial statement information

A. CONDENSED CONSOLIDATED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated

	First Quarter	
	2016 unaudited	**2017 unaudited**
Sales	1,702	1,690
Cost of sales	(1,075)	(1,024)
Gross margin	**627**	**666**
Selling expenses	(430)	(442)
Research and development expenses	(90)	(87)
General and administrative expenses	(49)	(56)
Impairment of goodwill	(2)	-
Other business income	18	16
Other business expenses	(3)	(3)
Income from operations	**71**	**94**
Financial income	4	2
Financial expenses	(21)	(13)
Results relating to investments in associates	-	1
Income before taxes	**54**	**84**
Income tax expense	(40)	(23)
Net income	**14**	**61**
Attribution of net income for the period:		
Net income attributable to shareholders of Philips Lighting N.V.	15	64
Net income attributable to non-controlling interests	(1)	(3)
Earnings per ordinary share attributable to shareholders		
Weighted average number of ordinary shares outstanding used for calculation (in thousands):		
Basic	-	148,172
Diluted	-	148,407
Net income attributable to shareholders per ordinary share in EUR:		
Basic	-	0.43
Diluted	-	0.43

B. CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

	First Quarter	
	2016 unaudited	2017 unaudited
Net income for the period	**14**	**61**
Pensions and other post-employment plans:		
Remeasurements	-	1
Income tax effect on remeasurements	-	-
Total of items that will not be reclassified to profit or loss	**-**	**1**
Currency translation differences:		
Net current period change, before tax	(81)	(37)
Income tax effect	-	-
Cash flow hedges:		
Net current period change, before tax	(4)	(7)
Income tax effect	1	-
Total of items that are or may be reclassified to profit or loss	**(84)**	**(44)**
Other comprehensive (loss) income for the period	**(84)**	**(43)**
Total comprehensive income for the period	**(70)**	**18**
Total comprehensive income (loss) attributable to:		
Shareholders of Philips Lighting N.V.	(65)	23
Non-controlling interests	(5)	(5)

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C. CONDENSED CONSOLIDATED BALANCE SHEET

in millions of EUR unless otherwise stated

	31 December 2016	31 March 2017
Non-current assets		
Property, plant and equipment	566	547
Goodwill	1,899	1,865
Intangible assets, excluding goodwill	768	727
Non-current receivables	25	39
Investments in associates	26	27
Other non-current financial assets	11	11
Deferred tax assets	472	484
Other non-current assets	28	26
Total non-current assets	**3,795**	**3,726**
Current assets		
Inventories	886	982
Other current assets	52	109
Derivative financial assets	29	22
Income tax receivable	50	56
Receivables	1,600	1,472
Assets classified as held for sale	3	3
Cash and cash equivalents	1,040	935
Total current assets	**3,660**	**3,579**
Total assets	**7,455**	**7,305**
Equity		
Shareholders' equity	2,704	2,647
Non-controlling interest	104	99
Total equity	**2,808**	**2,746**
Non-current liabilities		
Long-term debt	1,224	1,214
Long-term provisions	881	866
Deferred tax liabilities	35	33
Other non-current liabilities	150	147
Total non-current liabilities	**2,290**	**2,260**
Current liabilities		
Short-term debt	157	146
Derivative financial liabilities	26	24
Income tax payable	57	78
Account and notes payable	1,024	1,034
Accrued liabilities	502	450
Short-term provisions	244	216
Liabilities directly associated with assets classified held for sale	1	1
Other current liabilities	346	350
Total current liabilities	**2,357**	**2,299**
Total liabilities and total equity	**7,455**	**7,305**

Appendix B – Reconciliation of non-IFRS Financial Measures

Sales growth composition

Sales growth composition in %

	First Quarter			
	comparable growth	**currency effects**	**consolidation changes**	**nominal growth**
2017 vs 2016				
Lamps	-17.9	1.2	-2.4	-19.1
LED	16.7	1.7	0.4	18.8
Professional	2.5	0.8	0.0	3.3
Home	20.6	1.2	-1.8	20.0
Others	-81.9	0.5	0.0	-81.4
Total	**-0.8**	**1.2**	**-1.1**	**-0.7**

Sales growth composition in %

	First Quarter			
	comparable growth	**currency effects**	**consolidation changes**	**nominal growth**
2017 vs 2016				
Europe	4.9	-0.9	-0.2	3.8
Americas	-7.0	3.6	-0.3	-3.7
Rest of the World	1.9	0.9	0.2	3.0
Global businesses	-9.1	0.6	-11.5	-20.0
Total	**-0.8**	**1.2**	**-1.1**	**-0.7**

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

	Philips Lighting	Lamps	LED	Professional	Home	Others
January to March 2017						
Adjusted EBITA	142	114	39	13	3	(27)
Restructuring	(10)	(3)	-	(4)	(2)	(1)
Acquisition-related Charges	-	-	-	-	-	-
Incidental items	(10)	-	-	-	-	(10)
EBITA	122	111	39	9	1	(38)
Amortization	(28)	-	(1)	(26)	(1)	-
Income from operations (or EBIT)	**94**	**111**	**38**	**(17)**	**-**	**(38)**
January to March 2016						
Adjusted EBITA	121	125	20	6	(12)	(18)
Restructuring	(18)	(11)	-	(4)	(2)	(1)
Acquisition-related Charges	(1)	-	-	(1)	-	-
Incidental items	(2)	-	-	-	-	(2)
EBITA	100	114	20	1	(14)	(21)
Amortization	(29)	(1)	(1)	(26)	(1)	-
Income from operations (or EBIT)	**71**	**113**	**19**	**(25)**	**(15)**	**(21)**

Adjusted Gross Margin in millions of EUR unless otherwise stated

	January to March 2016	January to March 2017
Sales	1,702	1,690
Cost of Sales	(1,075)	(1,024)
Gross Margin	**627**	**666**
Restructuring	13	3
Acquisition-related Charges	-	-
Incidental items	-	-
Adjusted Gross Margin	**640**	**669**
Adjusted Gross Margin %	37.6%	39.6%

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

	January to March 2016	January to March 2017
Selling expenses	(430)	(442)
G&A expenses	(49)	(56)
SG&A expenses	**(479)**	**(498)**
Restructuring	6	6
Acquisition-related Charges	1	-
Incidental items	2	9
Adjusted SG&A expenses	**(470)**	**(483)**
Adjusted SG&A expenses %	-27.6%	-28.6%

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

	January to March 2016	January to March 2017
R&D expenses	**(90)**	**(87)**
Restructuring	(1)	1
Acquisition-related Charges	-	-
Incidental items	-	-
Adjusted R&D expenses	**(91)**	**(86)**
Adjusted R&D expenses %	-5.3%	-5.1%

Appendix C – Financial glossary

Acquisition-related charges	Costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses
Adjusted EBITA	EBITA excluding restructuring costs, acquisition-related charges and other incidental charges
Adjusted EBITA margin (%)	Adjusted EBITA divided by Sales to third parties (excluding intersegment)
Adjusted gross margin	Gross margin, excluding restructuring costs, acquisition-related charges and other incidental items attributable to cost of sales
Adjusted indirect costs	Indirect costs, excluding restructuring costs, acquisition-related charges and other incidental items attributable to indirect costs
Adjusted R&D expenses	Research and development expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to research and development expenses
Adjusted SG&A expenses	Selling, general and administrative expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to selling, general and administrative expenses
Comparable sales growth	The period-on-period growth in sales excluding the effects of currency movements and changes in consolidation
EBIT	Income from operations
EBITA	Income from operations excluding amortization and impairments of acquisition related intangible assets and goodwill
EBITDA	Income from operations excluding depreciation, amortization and impairments of non-financial assets
Effects of changes in consolidation	In the event a business is acquired (or divested), the impact of the consolidation (or de-consolidation) on the Group's figures are included (or excluded) in the comparable figures
Effects of currency movements	Calculated by translating previous periods' foreign currency amounts into euro at the following periods' exchange rates in comparison to the euro as historically reported
Employees	Employees of Philips Lighting at period end expressed on a full-time equivalent (FTE) basis
Free cash flow	Net cash provided by operations minus net capital expenditures. Free cash flow includes interest paid and income taxes paid
Gross margin	Sales minus cost of sales
Incidental charges	Any item with an income statement impact (loss or gain) that is deemed to be both significant and not part of normal business activity. Other incidental items may extend over several quarters within the same financial year
Indirect costs	The sum of Selling, R&D and General and administrative expenses

Net capital expenditures	Additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment, and intangible assets
Net debt	Short-term debt, short-term loans payable (receivable) to Royal Philips, long-term debt minus cash and cash equivalents
Net leverage ratio	The ratio of consolidated total net debt to adjusted consolidated EBITDA for the purpose of calculating the facility covenant for the term loan and revolving credit facility
R&D expenses	Research and development expenses
Restructuring costs	The estimated costs of initiated reorganizations, the most significant of which have been approved by the Group, and which generally involve the realignment of certain parts of the industrial and commercial organization
SG&A expenses	Selling, General and Administrative expenses
Working capital	The sum of Inventories, Receivables, Other current assets, Derivative financial assets, Income tax receivable minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, Income tax payable and Other current liabilities