



(Philips Lighting N.V., a public company with limited liability (naamloze vennootschap) incorporated under the laws of the Netherlands, with its corporate seat in Eindhoven, the Netherlands)

## Initial Public Offering of 37,500,000 ordinary shares

Koninklijke Philips N.V. (the "Selling Shareholder") is offering 37,500,000 ordinary shares in the share capital of the Company (as defined below) with a nominal value of €0.01 each (the "Offer Shares", which include, unless the context indicates otherwise, the Over-Allotment Shares (as defined below)). Assuming no exercise of the Over-Allotment Option (as defined below), the Offer Shares will constitute 25% of the issued and outstanding ordinary shares in the share capital of the Company with a nominal value of €0.01 each (the "Ordinary Shares"). Except where the context otherwise requires, references to the Ordinary Shares will be deemed to include the Offer Shares. Assuming the Over-Allotment Option is fully exercised, the Offer Shares will constitute 28.75% of the Ordinary Shares. See "The Offering".

The offering of the Offer Shares (the "Offering") consists of (i) a public offering in the Netherlands to institutional and retail investors and (ii) a private placement to (a) investors outside the Netherlands and the United States of America (the "U.S." or "United States") subject to applicable exemptions from the prospectus requirements and (b) investors in the United States reasonably believed to be "qualified institutional buyers" ("QIBs") as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") ("Rule 144A"). All offers and sales in the United States will be made only to persons reasonably believed to be QIBs in reliance on Rule 144A. All offers and sales outside the United States will be made in compliance with Regulation S under the U.S. Securities Act ("Regulation S").

Prior to the Offering, there has been no public market for the Ordinary Shares. Application has been made to list and admit all of the Ordinary Shares to trading under the symbol "LIGHT" on Euronext in Amsterdam, a regulated market of Euronext Amsterdam N.V. ("Euronext Amsterdam"). Subject to acceleration or extension of the timetable for the Offering, trading on an "as-if-and-when-delivered" basis in the Ordinary Shares on Euronext Amsterdam is expected to commence on or about 27 May 2016 (the "First Trading Date").

### The price of the Offer Shares (the "Offer Price") is expected to be in the range of €18.50 to €22.50 (inclusive) per Offer Share (the "Offer Price Range")

The Offering will take place from 9:00 Central European Time ("CET") on 16 May 2016 until 12:00 CET on 26 May 2016 for prospective institutional investors and from 9:00 CET on 16 May 2016 until 17:30 CET on 25 May 2016 for prospective retail investors (the "Offering Period"), subject to acceleration or extension of the timetable for the Offering, and subject as set out below for the Preferential Retail Allocation (as defined below). The Offer Price Range is indicative. The Offer Price and the exact number of Offer Shares offered in the Offering will be determined by the Selling Shareholder, after consultation with the Company and the Joint Global Coordinators (as defined below), after the end of the Offering Period on the basis of the bookbuilding process and taking into account economic and market conditions, a qualitative and quantitative assessment of demand for the Offer Shares and other factors deemed appropriate. The Offer Price and the exact numbers of Offer Shares to be sold will be stated in a pricing statement (the "Pricing Statement") which will be published through a press release and filed with the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten, the "AFM"). Prior to the allocation of the Offer Shares (the "Allocation"), the number of Offer Shares can be increased or decreased and the Offer Price Range can be changed. Any change of the Offer Price Range on the last day of the Offering Period will result in the Offering Period being extended by at least two business days; any change of the Offer Price Range on the day prior to the last day of the Offering Period will result in the Offering Period being extended by at least one business day. In this case, if the Offering Period for Dutch Retail Investors (as defined below) would already have closed, this Offering Period for Dutch Retail Investors would be reopened. Accordingly, all investors, including Dutch Retail Investors, will have at least two business days to reconsider their subscriptions. Any such change in the number of Offer Shares and/or the Offer Price Range will be announced in a press release.

There will be a preferential allocation of Offer Shares to eligible retail investors in the Netherlands (the "Preferential Retail Allocation"). Each eligible retail investor in the Netherlands (each a "Dutch Retail Investor") will be allocated the first 250 (or fewer) Offer Shares for which such investor applies, provided that if the total number of Offer Shares subscribed for by Dutch Retail Investors under the Preferential Retail Allocation would exceed 10% of the total number of Offer Shares, assuming no exercise of the Over-Allotment Option, the preferential allocation to each Dutch Retail Investor may be reduced pro rata to the first 250 (or fewer) Offer Shares for which such investor applies. As a result, Dutch Retail Investors may not be allocated all of the 250 (or fewer) Offer Shares that they apply for. The exact number of Offer Shares allocated to Dutch Retail Investors will be determined after the Offer Period has ended. To be eligible for the Preferential Retail Allocation, Dutch Retail Investors must place their subscriptions during the period commencing on 16 May 2016 at 9:00 CET and ending on 25 May 2016 at 17:30 CET through financial intermediaries.

Subject to acceleration or extension of the timetable for the Offering, payment (in euro) for, and delivery of, the Offer Shares ("Settlement") is expected to take place on or about 31 May 2016 (the "Settlement Date"). If Settlement does not take place on the Settlement Date as planned or at all, the Offering may be withdrawn, in which case all subscriptions for Offer Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation. Any transactions in Offer Shares prior to Settlement are at the sole risk of the parties concerned. The Company, the Selling Shareholder, ING (as defined below) as listing and paying agent (the "Listing and Paying Agent"), the Underwriters (as defined below), the Financial Adviser (as defined below) and Euronext Amsterdam N.V. do not accept responsibility or liability towards any person as a result of the withdrawal of the Offering or the (related) annulment of any transactions in Offer Shares.

### INVESTING IN THE OFFER SHARES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 51 OF THIS PROSPECTUS FOR A DESCRIPTION OF CERTAIN RISKS THAT SHOULD BE CAREFULLY CONSIDERED BEFORE INVESTING IN THE OFFER SHARES.

Philips Lighting N.V. (at the date of this prospectus (the "Prospectus") still a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) named Philips Lighting NewCo B.V.) (the "Company") will be converted into a public company with limited liability (*naamloze vennootschap*) prior to Settlement.

Goldman Sachs International and J.P. Morgan Securities plc ("J.P. Morgan") are acting as joint global coordinators (in such and any other capacity, the "Joint Global Coordinators") and, together with Citigroup Global Markets Limited ("Citigroup"), ING Bank N.V. ("ING"), Morgan Stanley & Co. International plc ("Morgan Stanley") and Société Générale Corporate & Investment Banking ("Société Générale") as joint bookrunners for the Offering (the "Joint Bookrunners"). ABN AMRO Bank N.V. ("ABN AMRO") and Coöperatieve Rabobank U.A. ("Rabobank") are acting as co-bookrunners (the "Co-Bookrunners") and together with the Joint Global Coordinators, the Joint Bookrunners, the "Underwriters" for the Offering. N.M. Rothschild & Sons Limited ("Rothschild") is acting as the financial adviser to the Selling Shareholder for the Offering (the "Financial Adviser").

The Offer Shares will be delivered in book-entry form through the facilities of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ("Euroclear Nederland").

The Selling Shareholder expects to grant the Joint Global Coordinators, on behalf of the Underwriters, an option (the "Over-Allotment Option"), exercisable within 30 calendar days after the First Trading Date, pursuant to which Goldman Sachs International, as the stabilization manager (the "Stabilization Manager"), may require the Selling Shareholder to sell at the Offer Price up to a number of Ordinary Shares equal to 15% of the total number of Offer Shares sold in the Offering (the "Over-Allotment Shares"), to cover over-allotments or short positions, if any, in connection with the Offering.

The Offering is only made in those jurisdictions in which, and only to those persons to whom, the Offering may be lawfully made. The Company is not taking any action to permit a public offering of the Offer Shares in any jurisdiction outside the Netherlands.

The Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and are being offered and sold: (i) in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A; and (ii) outside the United States in compliance with Regulation S. Prospective purchasers are hereby notified that sellers of Offer Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. The distribution of this Prospectus, the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. Each purchaser of Offer Shares, in making a purchase, will be deemed to have made certain acknowledgements, representations and agreements as set out in "Selling and Transfer Restrictions". Prospective investors in the Offer Shares should carefully read "Selling and Transfer Restrictions".

This Prospectus constitutes a prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council, and amendments thereto (including those resulting from Directive 2010/73/EU) (the "Prospectus Directive") and has been prepared in accordance with Section 5:9 of the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*; the "FMSA") and the rules promulgated thereunder. This Prospectus has been approved by and filed with the AFM.

Joint Global Coordinators and Joint Bookrunners

Goldman Sachs International

J.P. Morgan

Joint Bookrunners

Citigroup

ING

Morgan Stanley

Société Générale

Corporate & Investment Banking

Co-Bookrunners

ABN AMRO

Rabobank

Financial Adviser to the Selling Shareholder

Rothschild

This Prospectus is dated 16 May 2016

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## SUMMARY

Summaries are made up of disclosure requirements known as ‘Elements’. These Elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary together with an indication that such Element is ‘not applicable’.

### Section A – Introduction and Warnings

<b>A.1</b>	Introduction and warnings	<p>This summary should be read as an introduction to the prospectus (the “<b>Prospectus</b>”) relating to the offering (the “<b>Offering</b>”) by Koninklijke Philips N.V. (the “<b>Selling Shareholder</b>”) of 37,500,000 ordinary shares in the share capital of the Company (as defined below) with a nominal value of €0.01 each (the “<b>Offer Shares</b>”, which include, unless the context indicates otherwise, the Over-Allotment Shares (as defined below)), and the admission to listing and trading of the ordinary shares, with a nominal value of €0.01 each, in the share capital of the Company (the “<b>Ordinary Shares</b>”) on Euronext in Amsterdam, a regulated market of Euronext Amsterdam N.V. (“<b>Euronext Amsterdam</b>”). Except where the context otherwise requires, references to the Ordinary Shares will be deemed to include the Offer Shares. Assuming no exercise of the Over-Allotment Option (as defined below), the Offer Shares will constitute 25% of the issued Ordinary Shares. Assuming the Over-Allotment Option is fully exercised, the Offer Shares will constitute 28.75% of the Ordinary Shares. Any decision to invest in the Ordinary Shares should be based on a consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Ordinary Shares.</p>
<b>A.2</b>	Consent, indication, conditions and notice	<p>Not applicable. The Company does not consent to the use of the Prospectus for the subsequent resale or final placement of Offer Shares by financial intermediaries.</p>

<b>Section B – The Issuer</b>		
<b>B.1</b>	Legal and commercial name of the Company	Philips Lighting N.V., at the date of the Prospectus still a private limited liability company ( <i>besloten vennootschap met beperkte aansprakelijkheid</i> ) named Philips Lighting NewCo B.V. (the “ <b>Company</b> ”), will be converted into a public company with limited liability ( <i>naamloze vennootschap</i> ) prior to settlement of the Offering (“ <b>Settlement</b> ”).
<b>B.2</b>	Domicile, legal form, legislation and country of incorporation	The Company is a private limited liability company ( <i>besloten vennootschap met beperkte aansprakelijkheid</i> ) incorporated under the laws of the Netherlands. The Company will be converted into a public company with limited liability ( <i>naamloze vennootschap</i> ) prior to Settlement. The Company has its corporate seat ( <i>statutaire zetel</i> ) in Eindhoven, the Netherlands.
<b>B.3</b>	Key factors relating to the nature of the Group’s operations and its principal activities	<p>The Company together with its subsidiaries within the meaning of Section 2:24b DCC (each a “<b>Group Company</b>”, and together with the Company, the “<b>Group</b>”) is a global market leader in the general lighting market measured by sales with recognized expertise in the development, manufacturing and application of innovative lighting products, systems and services. The Group has pioneered many of the key breakthroughs in lighting over the past 125 years, including incandescent lighting, high-intensity discharge (“<b>HID</b>”) lamps, fluorescent lighting and compact fluorescent lamps (“<b>CFL</b>”), and has been a driving force behind several technological transitions, laying the basis for its current strengths and its leading position in the transition of the lighting industry from conventional lighting technologies to light-emitting diode (“<b>LED</b>”) lighting technologies as well as lighting systems (including connected lighting systems) and services. The Group has a strong track record in innovation and invests heavily in research and development (“<b>R&amp;D</b>”) (for the year ended 31 December 2015, 4.9% of sales) to stay at the forefront of technological developments. It has a strong patent portfolio with over 14,000 patent rights, which it believes is more than any of its competitors, and a licensing program with over 600 licensees as of 31 March 2016.</p> <p>The Group believes that it is well positioned across the lighting value chain and has a focus on the general lighting market. The Group’s light source product portfolio includes incandescent lamps, halogen lamps, fluorescent lamps, linear fluorescent lamps (“<b>LFL</b>”), CFLs, HID lamps and LED lamps. In addition, the Group offers electronic components, such as electronic ballasts and drivers, as well as complete luminaires for consumers and professional users. The Group also places emphasis on offering innovative, integrated and customized lighting systems and services, including light management systems and value-added services such as energy audits, light design and engineering as well as remote monitoring and managed services. The Group’s products are used for illumination and visualization in a variety of applications for general lighting, in particular residential, road and street, architectural, office, industrial, retail and hospitality lighting. The Group also produces light sources and systems for special applications, such as projection, cinema, entertainment, city beautification (<i>i.e.</i>, dynamic architectural lighting) and</p>

	<p>horticulture as well as water purification (<i>e.g.</i>, disinfection with ultraviolet radiation). The combined LED and automotive lighting components businesses (“<b>Lumileds</b>”) of Royal Philips (as defined below) were separated into a stand-alone company in 2015. The lighting components and automotive lighting businesses are not reflected in the financial results of the Group.</p> <p>The Group’s business is organized and managed on a functional basis by technology and end-markets through four operating business groups: BG Lamps, BG LED, BG Professional and BG Home (“<b>Business Groups</b>” or “<b>BGs</b>”). BG Lamps comprises the Group’s conventional lamps and lamp electronics businesses; BG LED comprises the Group’s LED lamps and LED electronics businesses; BG Professional comprises the Group’s professional luminaires, lighting systems and services businesses; and BG Home comprises the Group’s consumer luminaires and home systems businesses. Each Business Group is responsible for the development of its strategy, product portfolio and the production and sourcing of its products. In addition, the Group’s commercial organization is structured along four geographical market groups to manage its global sales channels: Europe, Americas, Growth Markets and Greater China (“<b>Market Groups</b>” or “<b>MGs</b>”).</p> <p>The Group has a global reach with commercial activities that cover approximately 180 countries. The Group has operational manufacturing plants in 22 countries in all major regions of the world, and more than 70 sales offices worldwide. The Group handles commercial activities in countries without a sales organization via independent distributors and agents who cooperate closely with the Group’s international sales organization.</p> <p>The Group has secured the right to use the Philips brand for products and services for an initial period of ten years following the separation of the Group from Royal Philips (the “<b>Separation</b>”). This term may be extended with two periods of five years if certain financial targets in terms of net turnover are met and provided that the Group as licensee has acted in compliance with the conditions of the trademark license agreement. The brand license is subject to royalty payments. The Group expects that the net effect of the royalty payment to be made to Royal Philips under the trademark license agreement annually will be approximately €20 million higher than the historical costs allocated to the Group for promotion of the Philips brand that are reflected in the Combined Financial Statements (as defined below) for the year ended 31 December 2015.</p> <p>For the year ended 31 December 2015, the Group’s sales were €7,465 million (2014: €6,981 million; 2013: €7,129 million), the Group’s income from operations was €331 million (2014: €41 million; 2013: €213 million), the Group’s adjusted EBITDA (unaudited) was €739 million (2014: €665 million; 2013: €659 million) and the Group’s free cash flow (unaudited) was €632 million (2014: €355 million; 2013: €84 million). For the three-month period ended 31 March 2016, the Group’s sales were €1,702 million, the Group’s income from operations was €71 million, the Group’s adjusted EBITDA (unaudited) was €161 million and the Group’s free cash flow (unaudited) was €(78) million. As of 31 March 2016, the Group employed approximately 36,350 full time equivalent personnel worldwide.</p>
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<b>B.4a</b>	Significant recent trends	<p>The general lighting market is in a technological transition from conventional lighting technologies to LED lighting technologies. In addition, the general lighting market is currently undergoing a rapid transformation, mainly driven by three underlying trends:</p> <ul style="list-style-type: none"> <li>• The increasing need for light;</li> <li>• The increasing demand for more efficient light; and</li> <li>• The increasing demand for digital lighting.</li> </ul>
<b>B.5</b>	Description of the Group and the Company's position therein	<p>The Company is a holding company without material direct business operations. The principal assets of the Company are the equity interests it directly or indirectly holds in its Group Companies.</p>
<b>B.6</b>	Shareholders of the Company	<p>The Selling Shareholder is the only holder of Shares (as defined below)(a "<b>Shareholder</b>") that holds (either directly or indirectly) a substantial interest (<i>substantiële deelneming, i.e.</i>, a holding of at least 3% of the share capital of voting rights as defined in the Dutch Financial Markets Supervision Act (<i>Wet op het financieel toezicht</i>) in the Company as of the date of the Prospectus. The Selling Shareholder holds 100 Ordinary Shares, or 100% of the Company's total issued and outstanding share capital as of the date of the Prospectus.</p> <p>Each Share gives the right to cast one vote at the general meeting of the Company ("<b>General Meeting</b>"). All Shareholders have the same voting rights.</p>
<b>B.7</b>	Selected historical key financial information	<p>This Prospectus contains combined financial information of the Group, which has been derived from the combined financial statements of the Group as of and for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 which have been prepared in accordance with IFRS as adopted by the EU and in accordance with IFRS as issued by the IASB (the "<b>Combined Financial Statements</b>") and is based on the consolidated financial statements of the Selling Shareholder together with its subsidiaries within the meaning of Section 2:24b DCC ("<b>Royal Philips</b>") and its accounting records. The Combined Financial Statements have been prepared based on "carve-out" financial information from the consolidated financial statements of Royal Philips for the purpose of presenting the financial position, results of operations and cash flow of the Group on a stand-alone basis. The Group historically did not exist as a reporting group and therefore previously no separate (statutory) consolidated financial statements were prepared. As a result, the Combined Financial Statements do not necessarily reflect what the Group's results of operations, financial condition and cash flows would have been had the Group operated as a separate, stand-alone group during the periods presented in the Prospectus and are not necessarily indicative of the Group's future results of operations, financial condition or cash flow.</p> <p>This Prospectus also contains the condensed combined interim financial statements of the Group for the three-month periods ended 31 March 2016 and 2015 and the accompanying notes (the "<b>Condensed Combined Interim Financial Statements</b>"). The Condensed Combined Interim Financial Statements have been prepared on the basis of IAS 34.</p>



## Combined Statements of Income

<i>In € millions</i>	For the three months ended		For the year ended		
	31 March (unaudited)		31 December		
	2016	2015	2015	2014	2013
Sales .....	1,702	1,727	7,465	6,981	7,129
Cost of sales .....	(1,075)	(1,106)	(4,810)	(4,671)	(4,573)
<b>Gross margin .....</b>	<b>627</b>	<b>621</b>	<b>2,655</b>	<b>2,310</b>	<b>2,556</b>
Selling expenses .....	(430)	(430)	(1,751)	(1,657)	(1,722)
Research and development expenses .....	(90)	(88)	(366)	(395)	(375)
General and administrative expenses .....	(49)	(50)	(233)	(223)	(233)
Impairment of goodwill .....	(2)	—	—	(2)	(26)
Other business income .....	18	2	48	13	31
Other business expenses .....	(3)	—	(22)	(5)	(18)
<b>Income from operations ...</b>	<b>71</b>	<b>55</b>	<b>331</b>	<b>41</b>	<b>213</b>
Financial income .....	4	—	3	3	3
Financial expenses .....	(21)	(2)	(11)	(9)	(4)
<b>Income before taxes .....</b>	<b>54</b>	<b>53</b>	<b>323</b>	<b>35</b>	<b>212</b>
Income tax expense .....	(40)	(23)	(83)	(66)	(45)
<b>Income after taxes .....</b>	<b>14</b>	<b>30</b>	<b>240</b>	<b>(31)</b>	<b>167</b>
Results relating to investments in associates .....	—	—	—	2	1
<b>Net income (loss) .....</b>	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>

## Combined Balance Sheets

<i>In € millions</i>	As of	As of 31 December		
	31 March (unaudited)			
	2016	2015	2014	2013
<b>Non-current assets</b>				
<i>Property, plant and equipment:</i>				
At cost .....	2,634	2,620	2,840	2,767
Less accumulated depreciation .....	(2,031)	(1,986)	(2,118)	(1,937)
Total property, plant and equipment .....	603	634	722	830
Goodwill .....	1,781	1,844	1,676	1,458
<i>Intangible assets:</i>				
At cost .....	2,196	2,192	2,120	1,799
Less accumulated depreciation .....	(1,391)	(1,336)	(1,214)	(1,027)
Total intangible assets ...	805	856	906	772
Non-current receivables .....	16	20	10	8
Investments in associates .....	23	23	24	27
Other non-current financial assets .....	58	8	23	22
Deferred tax assets .....	409	259	241	212
Other non-current assets .....	19	15	4	4
<b>Total non-current assets .....</b>	<b>3,714</b>	<b>3,659</b>	<b>3,606</b>	<b>3,333</b>

<i>In € millions</i>	<b>As of 31 March (unaudited)</b>	<b>As of 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b><i>Current assets</i></b>				
Inventories . . . . .	1,010	988	996	983
Other current assets . . . . .	48	46	65	52
Derivative financial assets . . . . .	10	9	17	20
Income tax receivable . . .	30	25	8	7
<b><i>Receivables:</i></b>				
<i>Accounts</i>				
<i>receivable</i> . . . . .	1,344	1,436	1,455	1,289
<i>Accounts receivable</i> <i>from related</i> <i>parties – Royal</i> <i>Philips</i> . . . . .	65	83	3	13
<i>Other current</i> <i>receivables</i> . . . . .	103	80	87	69
Total receivables . . . . .	1,512	1,599	1,545	1,371
Assets classified as held for sale . . . . .	52	34	20	15
Short-term loans receivable from Royal Philips . . . . .	207	—	—	—
Cash and cash equivalents . . . . .	353	83	75	49
<b>Total current assets</b> . . . . .	<b>3,222</b>	<b>2,784</b>	<b>2,726</b>	<b>2,497</b>
<b>Total assets</b> . . . . .	<b>6,936</b>	<b>6,443</b>	<b>6,332</b>	<b>5,830</b>
<b><i>Equity</i></b>				
Owner's net investment . .	3,011	3,513	3,495	3,297
Non-controlling interest . . . . .	110	103	88	2
<b>Business equity</b> . . . . .	<b>3,121</b>	<b>3,616</b>	<b>3,583</b>	<b>3,299</b>
<b><i>Non-current liabilities</i></b>				
Long-term debt . . . . .	18	2	41	6
Long-term provisions . . .	678	350	461	348
Deferred tax liabilities . . .	38	126	150	132
Other non-current liabilities . . . . .	320	159	158	145
<b>Total non-current liabilities</b> . . . . .	<b>1,054</b>	<b>637</b>	<b>810</b>	<b>631</b>
<b><i>Current liabilities</i></b>				
Short-term debt . . . . .	95	86	49	2
Short-term loans payable to Royal Philips . . . . .	645	—	—	—
Derivative financial liabilities . . . . .	13	7	15	22
Income tax payable . . . . .	23	6	14	10
<i>Account and notes</i> <i>payable:</i>				
<i>Trade creditors</i> . . . . .	765	940	847	867
<i>Accounts payable to</i> <i>related parties –</i> <i>Royal Philips</i> . . . . .	147	111	37	20
Total account and notes payable . . . . .	912	1,051	884	887
Accrued liabilities . . . . .	404	459	447	459
Short-term provisions . . .	266	263	240	227
Liabilities associated with assets classified as held for sale . . . . .	10	6	—	—
Other current liabilities . .	393	312	290	293
<b>Total current liabilities</b> . . . . .	<b>2,761</b>	<b>2,190</b>	<b>1,939</b>	<b>1,900</b>
<b>Total liabilities</b> . . . . .	<b>3,815</b>	<b>2,827</b>	<b>2,749</b>	<b>2,531</b>
<b>Total liabilities and business equity</b> . . . . .	<b>6,936</b>	<b>6,443</b>	<b>6,332</b>	<b>5,830</b>



<b>Combined Statements of Cash Flows</b>					
<i>In € millions</i>	<b>For the three months ended</b>		<b>For the year ended</b>		
	<b>31 March (unaudited)</b>		<b>31 December</b>		
	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>Cash flows from operating activities</i></b>					
<b>Net income (loss)</b> .....	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>
Depreciation, amortization & impairments of non-financial assets .....	78	73	315	381	390
Impairment of non-current financial assets .....	3	—	4	—	—
Net gain on sale of assets .....	(1)	—	(26)	(2)	(1)
Interest income .....	(4)	—	(3)	(3)	(3)
Interest expense on debt, borrowings and other liabilities .....	18	2	7	9	4
Income tax expense .....	40	23	83	66	45
Share-based compensation .....	6	7	24	22	27
Decrease (increase) in working capital .....	(102)	79	209	(33)	(231)
<i>Decrease (increase) in receivables and other current assets</i> .....	28	28	—	(17)	(206)
<i>Decrease (increase) in inventories</i> .....	(47)	(65)	29	114	(94)
<i>Increase (decrease) in accounts payable, accrued and other current liabilities</i> .....	(83)	116	180	(130)	69
Increase (decrease) in non-current receivables, other assets and other liabilities .....	(63)	2	(29)	—	4
Increase (decrease) in provisions .....	(31)	(23)	(79)	116	(86)
Decrease (increase) in assets classified as held for sale .....	—	—	—	(1)	(1)
Interest paid .....	(1)	(2)	(2)	(5)	—
Income taxes paid .....	(17)	(7)	(26)	(43)	(54)
<b>Net cash provided by operating activities</b> .....	<b>(60)</b>	<b>184</b>	<b>717</b>	<b>478</b>	<b>262</b>
<b><i>Cash flows from investing activities</i></b>					
Net capital expenditures .....	(18)	(28)	(85)	(123)	(178)
<i>Additions of intangible assets</i> .....	(4)	(8)	(38)	(51)	(38)
<i>Capital expenditures on property, plant and equipment</i> .....	(16)	(20)	(98)	(109)	(159)
<i>Proceeds from disposal of property, plant and equipment</i> .....	2	—	51	37	19
Proceeds from other non-current financial assets .....	—	17	31	—	—
Purchase of businesses, net of cash acquired .....	—	(3)	(11)	(125)	—
Dividends received from investments in associates .....	—	—	—	(1)	2
<b>Net cash used in investing activities</b> .....	<b>(18)</b>	<b>(14)</b>	<b>(65)</b>	<b>(249)</b>	<b>(176)</b>

<i>In € millions</i>	<b>For the three months ended 31 March (unaudited)</b>		<b>For the year ended 31 December</b>			
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	
<b>Cash flows from financing activities</b>						
Funding by (distribution to) Royal Philips .....	(349)	(149)	(626)	(200)	(95)	
Capital contribution from Royal Philips .....	692	—	—	—	—	
Proceeds from issuance (payments) of debt .....	3	(24)	(12)	(1)	(2)	
<b>Net cash used for financing activities .....</b>	<b>346</b>	<b>(173)</b>	<b>(638)</b>	<b>(201)</b>	<b>(97)</b>	
<b>Net cash (used for) provided by continuing operations .....</b>	<b>268</b>	<b>(3)</b>	<b>14</b>	<b>28</b>	<b>(11)</b>	
Effects of changes in exchange rates on cash and cash equivalents .....	2	(9)	(6)	(2)	2	
Cash and cash equivalents at beginning of period .....	83	75	75	49	58	
<b>Cash and cash equivalents at end of period .....</b>	<b>353</b>	<b>63</b>	<b>83</b>	<b>75</b>	<b>49</b>	
<b>Business Group Information</b>						
The Group's business is organized and managed on a functional basis by technology and end-markets through four operating Business Groups: BG Lamps, BG LED, BG Professional and BG Home. Certain innovation activities of the Group, as well as certain costs related to the headquarters of the Group, are not reflected in the financial results of the Business Groups, and are described under the caption "Other" in this Prospectus.						
<i>In € millions</i>	<b>BG Lamps</b>	<b>BG LED</b>	<b>BG Professional</b>	<b>BG Home</b>	<b>Other</b>	<b>Total</b>
<b>For the three months ended 31 March 2016</b>						
Sales .....	615	355	601	124	7	<b>1,702</b>
Income from operations .....	113	19	(25)	(15)	(21)	<b>71</b>
<b>For the three months ended 31 March 2015</b>						
Sales .....	727	275	610	112	3	<b>1,727</b>
Income from operations .....	106	2	(19)	(19)	(15)	<b>55</b>
<b>For the year ended 31 December 2015</b>						
Sales .....	2,850	1,334	2,757	515	9	<b>7,465</b>
Income from operations .....	403	66	14	(73)	(79)	<b>331</b>
<b>For the year ended 31 December 2014</b>						
Sales .....	3,119	958	2,420	482	2	<b>6,981</b>
Income from operations .....	356	(62)	(56)	(70)	(127)	<b>41</b>
<b>For the year ended 31 December 2013</b>						
Sales .....	3,557	772	2,308	490	2	<b>7,129</b>
Income from operations .....	586	(20)	(75)	(152)	(126)	<b>213</b>

<b>B.8</b>	Selected key pro forma financial information	Not applicable. No pro forma financial information has been included in the Prospectus.
<b>B.9</b>	Profit forecast	Not applicable. The Company has not issued a profit forecast.
<b>B.10</b>	Historical audit report qualifications	Not applicable. There are no qualifications in the auditor's report on the historical financial information for the years ended 31 December 2015, 2014 and 2013.
<b>B.11</b>	Explanation if insufficient working capital	The Company believes that the working capital available to the Group is sufficient for the Group's present requirements; that is for at least 12 months following the date of the Prospectus.
<b>Section C – Securities</b>		
<b>C.1</b>	Type and class, security identification number	<p>The Ordinary Shares are ordinary shares in the issued and outstanding share capital of the Company with a nominal value of €0.01 each.</p> <p>Application has been made to list all Ordinary Shares under the symbol "LIGHT" on Euronext Amsterdam under ISIN Code: NL0011821392.</p>
<b>C.2</b>	Currency of the Offer Shares	The Offer Shares are denominated in and will trade in euro.
<b>C.3</b>	Number of Shares and nominal value	<p>As of the date of this Prospectus, the authorized share capital of the Company is €6,000,000, divided into 300,000,000 Ordinary Shares with a nominal value of €0.01 each and 300,000,000 Preference Shares with a nominal value of €0.01 each (the "<b>Preference Shares</b>", and together with the Ordinary Shares, the "<b>Shares</b>"). The issued and outstanding share capital of the Company is €1, divided into one hundred Ordinary Shares and no Preference Shares.</p> <p>As of the date of the Prospectus, no Ordinary Shares are held by the Company.</p>
<b>C.4</b>	Rights attached to the Shares	<p>References to the "<b>Articles of Association</b>" hereafter will be to the Company's articles of association as they will read after the date on which payment (in euro) for and delivery of the Offer Shares ("<b>Settlement</b>") occurs which is expected to be on or about 31 May 2016, subject to acceleration or extension of the timetable for the Offering (the "<b>Settlement Date</b>").</p> <p>The Ordinary Shares carry dividend rights. Each Ordinary Share confers the right to cast one vote in the General Meeting. There are no restrictions on voting rights.</p> <p>Upon issue of Ordinary Shares in return for a cash consideration, each holder of Ordinary Shares has a pre-emptive right in proportion to the number of Ordinary Shares which it owns. Shareholders do not have pre-emptive rights in respect of Shares issued against contribution in kind, Shares issued to employees of the Company or a Group Company or Shares issued to persons exercising a previously granted right to subscribe for Shares.</p> <p>Pre-emptive rights may be limited or excluded by the board of management (<i>raad van bestuur</i>) of the Company (the "<b>Board of Management</b>") if the Board of Management is designated by the General Meeting to do so. If the Board of Management has not been authorized to resolve to issues Shares, the General Meeting has the power, upon the proposal of the Board of Management, to restrict or exclude the pre-emptive rights.</p>

		<p>Such proposal must be approved by the supervisory board (<i>raad van commissarissen</i>) of the Company (the “<b>Supervisory Board</b>”). A resolution of the General Meeting requires a majority of at least two-thirds of the vote cast if less than half of the issued share capital is represented at the General Meeting.</p> <p>No pre-emptive rights exists upon the issue of Preference Shares. Holders of Preference Shares do not have a pre-emptive right in respect of Ordinary Shares.</p> <p>As set out above, the Board of Management is authorized by the General Meeting to resolve to issue Ordinary Shares, to grant rights to subscribe for Ordinary Shares and to restrict and/or exclude statutory pre-emptive rights in relation to the issuances of Ordinary Shares or the granting of rights to subscribe for Shares. Aforementioned authorization of the Board of Management is limited to 10% of the total nominal issued share capital of the Company as of the Settlement Date plus an additional 10% of the nominal issued share capital of the Company as of the Settlement Date in connection with or on the occasion of mergers and acquisitions and strategic alliances and will be valid for 18 months following such date.</p>
C.5	Restrictions on transferability of the Offer Shares	<p>A transfer of a Share or a restricted right thereto (<i>beperkt recht</i>) requires a deed of transfer and the acknowledgment by the Company of the transfer in writing.</p> <p>A Share becomes a deposit share by transfer or issuance to Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“<b>Euroclear Nederland</b>”) or to an intermediary, recording in writing that it is a deposit share. The deposit share must be recorded in the shareholders register of the Company in the name of Euroclear Nederland or the relevant intermediary, stating in writing that it is a deposit share. Deposit shareholders are not recorded in the shareholders register of the Company. Deposit shares can only be delivered from a collective depot or giro depot with due observance of the related provisions of the Dutch Securities Giro Transactions Act. The transfer by a deposit shareholder of its book-entry rights representing deposit shares shall be effected in accordance with the provisions of the Dutch Securities Giro Transactions Act. The same applies to the establishment of a right of pledge and the establishment or transfer of a usufruct on these book-entry rights.</p>
C.6	Listing and admission to trading of the Offer Shares	<p>Prior to the Offering, there has been no public market for the Ordinary Shares. Application has been made to list all of the Ordinary Shares on Euronext Amsterdam under the symbol “LIGHT” with ISIN code NL0011821392. Subject to acceleration or extension of the timetable for the Offering, trading on an “as-if-and-when-delivered” basis in the Offer Shares is expected to commence on or about 27 May 2016 (the “<b>First Trading Date</b>”).</p>
C.7	Dividend policy	<p>The Company is targeting an annual dividend pay-out ratio of 40% to 50% of continuing net income<sup>1</sup> to be paid out annually in cash. The Company expects the first dividend payment to take place in 2017, which will be based on the results for the</p>

<sup>1</sup> Continuing net income is defined as recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items.

		<p>full year 2016. There can be no assurances that in any given year a dividend will be paid. The payment of dividends, if any, and the amounts and timing thereof, will depend on a number of factors, including future revenue, profits, financial conditions, general economic and business conditions, and future prospects and such other factors as the Board of Management may deem relevant as well as other legal and regulatory requirements, many of which are beyond the control of the Company. There can be no assurances that the Group's performance will facilitate adherence to the dividend policy or any increase in the pay-out ratio and, in particular, the Company's ability to pay dividends may be impaired if any of the risks described in this Prospectus were to occur. Furthermore, the Company's dividend policy is subject to change as the Board of Management will revisit the Company's dividend policy from time to time.</p>
<b>Section D – Risks</b>		
<b>D.1</b>	Selection of key risks	<p>The following is a selection of key risks that relate to the Group's industry, business and operations, the Separation and the establishment of the Company as an independent publicly listed company, legal and compliance, financial, the Ordinary Shares and the Offering and Offer Shares. In making the selection, the Group has considered circumstances such as the probability of the risk materializing on the basis of the current state of affairs, the potential impact which the materialization of the risk could have on the Group's business, financial condition, results of operations and prospects, and the attention that management of the Group would on the basis of current expectations have to devote to these risks if they were to materialize. Investors should read, understand and consider all risk factors, which risk factors are material and should be read in their entirety, in "Risk Factors" beginning on page 51 of the Prospectus before making an investment decision to invest in the Offer Shares.</p> <ul style="list-style-type: none"> <li>• As the Group's business is global and cyclical, it is exposed to adverse economic and political developments in countries and industries across the world.</li> <li>• The lighting industry is in a technological transition from conventional lighting technologies to LED lighting technologies and the Group may not be successful in addressing this transition.</li> <li>• Rapid technological change and the transition from conventional lighting technologies to LED lighting technologies may be disruptive and require other adjustments to the Group's business model, including to the Group's sales and marketing, R&amp;D, supply chain management and procurement processes.</li> <li>• The general lighting market in which the Group operates is highly competitive as it includes other traditional global lighting manufacturers as well as new entrants to the LED lighting market. Moreover, the competitive landscape may change due to increasing vertical integration.</li> <li>• The Group has spent considerable resources to develop its offering of lighting systems (including connected lighting</li> </ul>

		<p>systems) and lighting services. There can be no assurance that the Group’s strategy with respect to lighting systems and lighting services will be successfully implemented, or that the Group will fully realize the expected benefits of its strategy.</p> <ul style="list-style-type: none"> <li>• The Group’s current and future business transformation programs are and may in the future be costly, may not be successfully implemented and may not improve the performance of the Group’s business to the extent expected.</li> <li>• The Group may from time to time make acquisitions and engage in other transactions to complement or expand its existing business. However, the Group may not be successful in acquiring suitable targets at acceptable prices and integrating them into its operations, and any acquisitions may lead to a diversion of management resources.</li> <li>• Due to the Separation, the Company has prepared the Combined Financial Statements for this Prospectus based on carve-out financial information. The financial information presented in this Prospectus therefore differs from what the financials would have been if the Company had been an independent company and is not necessarily representative of the historic or future position of the Company as a separate, publicly listed company.</li> <li>• Actual pension liabilities and costs following the Separation may differ significantly from those set out in the Combined Financial Statements.</li> <li>• The Group may not be successful in establishing a new corporate and brand identity.</li> <li>• The history of the combined Group, the Separation of the Group from Royal Philips and the Offering may result in adverse tax consequences.</li> <li>• The Group conducts its business in multiple jurisdictions and is exposed to the tax laws of such jurisdictions, including risks in connection with challenges to its tax position.</li> </ul>
	<p>Key risks that are specific to the Group</p>	<p>The following is a summary of all other key risks that relate to the Group’s industry, business and operations, the Separation and the establishment of the Company as an independent publicly listed company, legal and compliance, financial, the Ordinary Shares and the Offering and Offer Shares. Investors should read, understand and consider all risk factors, which risk factors are material and should be read in their entirety, in “Risk Factors” beginning on page 51 of the Prospectus before making an investment decision to invest in the Offer Shares.</p> <p><b>Risks Relating to the Group’s Industry, Business and Operations</b></p> <ul style="list-style-type: none"> <li>• There can be no assurance that the Group’s strategy to address the transition from conventional lighting technologies to LED lighting technologies whilst optimizing cash generation from the conventional lamps business will be successful.</li> </ul>



		<ul style="list-style-type: none"> <li>• A significant portion of the Group’s existing operational manufacturing plants has or will become obsolete due to the transition from conventional lighting technologies to LED lighting technologies, which has resulted in and is expected to continue to result in significant costs to the Group.</li> <li>• The Group may not be successful in offsetting the significant price erosion which characterizes the market for LED lamps, with higher volumes, productivity improvements, product innovations and cost control.</li> <li>• The ability of the Group to compete effectively depends upon its ability to distinguish the Group and its products, systems and services from those of its competitors.</li> <li>• Cost savings initiatives needed to maintain and improve profitability margins and cash generation may not be successful.</li> <li>• The loss of important customers or a change in the terms of purchases by important customers may materially adversely affect the Group’s business.</li> <li>• The Group’s manufacturing and supply operations are shifting from an in-house production model to an “asset-light” outsourcing model, which makes the Group increasingly dependent on external suppliers and effective supply chain management.</li> <li>• The Group depends on external suppliers for certain critical components and raw materials, which may expose it to rising prices or shortages.</li> <li>• The Group relies on the manufacturing of its LED lamps in Asia for its worldwide distribution and could suffer as a result of long lead times.</li> <li>• In difficult market conditions, the Group’s high fixed costs combined with low revenues may negatively impact its results.</li> <li>• The Group may suffer losses related to winning, executing and managing complex lighting projects.</li> <li>• The Group owns less than 100% of the shares in certain of its companies and participates in joint ventures or associated companies in which the ownership structure carries risks.</li> <li>• The Group may from time to time desire to exit certain product lines, businesses or markets, but may not be successful in doing so.</li> <li>• Risk of unauthorized use of intellectual property rights of the Group may cause the Group’s business, results of operations and financial condition to suffer.</li> <li>• The Group may require access to third party intellectual property rights for its products and services and third parties may assert intellectual property rights against the Group.</li> <li>• The Group sets high quality standards for its products but it is possible that products may contain defects or otherwise not perform as expected. Quality defects may reduce sales, result in costs associated with warranty or product liability claims or require recall of affected items.</li> </ul>
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		<ul style="list-style-type: none"> <li>• The Group may suffer substantial losses in the event of a natural disaster, terrorist attack or other casualty event in markets in which it operates.</li> <li>• The Group relies upon the uninterrupted operation of its production work flows and available information technology (“IT”) systems, and is exposed to the risks of interruption, loss of information, IT security threats, computer crime and breaches of data confidentiality and integrity.</li> <li>• The Group is dependent on its personnel for leadership and specialized skills and the loss of its ability to attract and retain such personnel may have an adverse effect on its business.</li> <li>• The Group is dependent on its relationships with its workforce. Strikes and other labor-related conflicts as well as rising wages or indirect labor costs may have a material adverse effect on its business.</li> </ul> <p><b>Risks Relating to the Separation and the Establishment of the Company as an Independent Publicly Listed Company</b></p> <ul style="list-style-type: none"> <li>• The Group relies on Royal Philips to perform certain services after the Separation, including with respect to IT, and the Group may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company.</li> <li>• The Group may lose rights to key intellectual property arrangements as a result of no longer being a business segment of Royal Philips.</li> <li>• Potential indemnification obligations to Royal Philips pursuant to the agreement between Philips Lighting Holding B.V. and the Selling Shareholder dated 1 February 2016 relating to the Separation (the “<b>Separation Agreement</b>”) could subject the Group to substantial liabilities.</li> <li>• In connection with the Separation, Royal Philips agreed to indemnify the Group for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure the Group against the full amount of such liabilities, or that Royal Philips’ ability to satisfy its indemnification obligation will not be impaired in the future.</li> <li>• Following the Offering, Royal Philips will continue to have a position to exert substantial influence over the Company and its interests may differ from the interests of the Company’s other Shareholders.</li> <li>• The Company may face increased administrative, financial and related expenses as a result of operating as an independent company.</li> </ul> <p><b>Legal and Compliance Risks</b></p> <ul style="list-style-type: none"> <li>• The Group is involved or may become involved in legal proceedings.</li> </ul>
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		<ul style="list-style-type: none"> <li>• A material change in applicable laws and regulations, or in their interpretation or enforcement, may materially adversely affect the Group’s business, results of operations, financial condition and prospects.</li> <li>• The Group’s business, results of operations, financial condition and prospects may be materially adversely affected by violations of antitrust laws.</li> <li>• The Group’s business and operations may be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the United Kingdom Bribery Act 2010 or similar worldwide anti-bribery laws.</li> <li>• The Group is subject to stringent data privacy laws and may therefore be exposed to increased compliance costs and to confidentiality and security breaches.</li> <li>• The Group’s business and operations may be adversely affected by violations of export control laws and international sanctions.</li> <li>• The Group is exposed to financial reporting and internal controls risks.</li> <li>• The Group is subject to environmental liability risks and regulations and incurs costs to comply with such regulations.</li> </ul> <p><b>Financial Risks</b></p> <ul style="list-style-type: none"> <li>• The Group is exposed to the movement of foreign currency exchange rates, particularly versus the euro.</li> <li>• The Group is exposed to the risk of restricted access to debt funding.</li> <li>• The Group is exposed to interest rate risks.</li> <li>• The Group may be adversely affected by regulatory restrictions on cross border payment flows or currency conversions.</li> <li>• The Group is exposed to counterparty/credit risk from customers and financial institutions.</li> <li>• The Group is exposed to a number of different fiscal uncertainties which may have a significant impact on local tax results.</li> <li>• The Group may be subject to risk of impairment of goodwill of acquired businesses.</li> <li>• The Group has pension plans and retiree medical benefit plans in a number of countries. The funded status and the cost of maintaining these plans are influenced by movements in financial market and demographic developments and may adversely affect the Group’s financial condition.</li> </ul>
<b>D.3</b>	Key risks relating to the Shares and the Offering	<p><b>Risks Relating to the Ordinary Shares</b></p> <ul style="list-style-type: none"> <li>• The payment of future dividends will depend on the Group’s results of operations and financial condition, as well as on the Group’s operating subsidiaries’ distributions to the Company.</li> </ul>

		<ul style="list-style-type: none"> <li>• Future issuances of Ordinary Shares or debt or equity securities convertible into Ordinary Shares by the Company, or future sales of a substantial number of Ordinary Shares by Royal Philips or the perception thereof, may adversely affect the market price of the Ordinary Shares, and any future issuance of Ordinary Shares may dilute investors' shareholdings. Although the Company and Royal Philips are expected to agree in the Underwriting Agreement (as defined below) to certain restrictions on issuing, selling or transferring Ordinary Shares for a period of 180 days after the Settlement Date, the Joint Global Coordinators (as defined below) may, in their sole discretion and at any time, waive such restrictions.</li> <li>• Holders of Ordinary Shares outside the Netherlands may suffer dilution if they are unable to exercise pre-emptive rights in future offerings.</li> <li>• Provisions in the Articles of Association and in contracts concluded by the Group may delay, deter or prevent takeover attempts that may be favorable to the holders of Ordinary Shares.</li> </ul> <p><b>Risks Relating to the Offering and Offer Shares</b></p> <ul style="list-style-type: none"> <li>• The Ordinary Shares have not been publicly traded prior to the Offering, and there is no guarantee that an active and liquid market for the Shares will develop.</li> <li>• The Company's Ordinary Share price may fluctuate significantly, and investors may lose all or part of their investment.</li> <li>• If closing of the Offering does not take place, purchases of the Offer Shares will be disregarded and transactions effected in the Offer Shares will be annulled.</li> </ul>
<b>Section E – Offer</b>		
<b>E.1</b>	Net proceeds and estimated expenses	<p>The Company will not receive any proceeds from the Offering, the net proceeds of which will be received by the Selling Shareholder.</p> <p>After deducting the estimated expenses, commissions and taxes related to the Offering payable by the Selling Shareholder of approximately €47,000,000, the Selling Shareholder expects to receive approximately €721,750,000 in net proceeds from the Offering (based on an Offer Price at the mid-point of the Offer Price Range (as defined below) and assuming the sale of the maximum number of Offer Shares by the Selling Shareholder and no exercise of the over-allotment option (the “<b>Over-Allotment Option</b>”) that is to be granted by the Selling Shareholder in connection with the Offering).</p> <p>The expenses related to the Offering are estimated at approximately €47 million and include, among other items, the fees due to the Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) (“<b>AFM</b>”) and Euronext Amsterdam, the commission for the Underwriters (as defined below), and legal and administrative expenses, as well as publication costs and applicable taxes, if any.</p>

<p><b>E.2a</b></p>	<p>Reasons for the Offering and use of proceeds</p>	<p>On 23 September 2014, the Selling Shareholder announced that it was sharpening its strategic focus by separating Royal Philips into two leading companies focused on the healthtech and lighting markets. In a shareholder circular published by the Selling Shareholder on 19 March 2015, Royal Philips stated that it believes that the healthtech and lighting business areas both offer attractive end-markets, but that each has unique customer needs, value drivers, industry trends and competitive dynamics. Royal Philips therefore considered the time appropriate to establish two independent companies each focusing on their respective end-markets:</p> <ul style="list-style-type: none"> <li>• Royal Philips, which aims to capture new healthtech opportunities by combining its existing healthcare and consumer lifestyle businesses; and</li> <li>• the Group, which will continue Royal Philips' existing lighting business (except for Lumileds which will remain part of Royal Philips) and which aims to boost growth in LED lighting products, systems and services.</li> </ul> <p>The Group believes, and Royal Philips has informed the Group that it believes, that, as a pure-play lighting company following the Separation, the Group will be well positioned to deliver shareholder and corporate value for the following reasons:</p> <ul style="list-style-type: none"> <li>• the Separation will allow the Group to focus on and more effectively pursue its own operating priorities and strategies, and will enable the management of the Group to concentrate all its efforts on the needs of the lighting business and pursue distinct opportunities for long-term growth and profitability;</li> <li>• the Separation will permit the Group to concentrate its financial resources solely on its own operations, providing greater flexibility to invest capital in its business in a time and manner appropriate for its strategy and business needs and facilitating a more efficient allocation of capital;</li> <li>• the Separation will create a separate lighting company with a simplified organizational structure and increased focus on the needs of the lighting business, facilitating faster decision-making and flexibility, and improving the ability of the Group to compete and enabling it to respond quickly to changing customer requirements and market dynamics;</li> <li>• the Separation will create an independent equity structure that will allow the Group to have direct access to capital markets and facilitate the ability of the Group to capitalize on its growth opportunities and effect future investments (including acquisitions) utilizing its common stock if needed; and</li> <li>• the Separation will facilitate incentive compensation arrangements for the Group's employees more directly tied to the performance of the Group's business, and may enhance employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives.</li> </ul> <p>Although the Company believes that for these reasons, it will be well positioned to deliver shareholder and corporate value,</p>
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		<p>the Company cannot assure that, following the Separation, any of the benefits described above or otherwise will be realized to the extent anticipated or even at all.</p> <p>The Company will not receive any proceeds from the Offering.</p>
<b>E.3</b>	Terms and conditions of the Offering	<p><b>Offer Shares</b></p> <p>The Selling Shareholder is offering 37,500,000 Offer Shares. The Offering consists of (i) a public offering in the Netherlands to institutional and retail investors and (ii) a private placement to (a) investors outside the Netherlands and the United States of America (the “U.S.” or “United States”), subject to applicable exemptions from the prospectus requirements and (b) investors in the United States reasonably believed to be “qualified institutional buyers” (“QIBs”) as defined in Rule 144A under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”) (“Rule 144A”). All offers and sales in the United States will be made only to persons reasonably believed to be QIBs in reliance on Rule 144A. All offers and sales outside the United States will be made in compliance with Regulation S under the U.S. Securities Act (“Regulation S”). The Offering is made only in those jurisdictions in which, and only to those persons to whom, the Offering may be lawfully made.</p> <p><b>Over-Allotment Option</b></p> <p>The Selling Shareholder expects to grant the Joint Global Coordinators, on behalf of the Underwriters (as defined below), the Over-Allotment Option, exercisable up to 30 calendar days after the First Trading Date, pursuant to which the Stabilization Manager (as defined below) may require the Selling Shareholder to sell at the Offer Price up to 5,625,000 additional Over-Allotment Shares, comprising up to a number of Ordinary Shares equal to 15% of the total number of Offer Shares sold in the Offering (the “Over-Allotment Shares”), to cover over-allotments or short positions, if any, in connection with the Offering.</p> <p><b>Offering Period</b></p> <p>Prospective investors may subscribe for Offer Shares during the period commencing at 9:00 Central European Time (“CET”) on 16 May 2016 and ending at 12:00 CET on 26 May 2016 (the “Offering Period”), subject to acceleration or extension of the timetable for the Offering.</p> <p>The Offering Period for Dutch Retail Investors (as defined below) will end at 17:30 CET on 25 May 2016.</p> <p><b>Offer Price and Number of Offer Shares</b></p> <p>The Offer Price is expected to be in the range of €18.50 to €22.50 (inclusive) per Offer Share (the “Offer Price Range”). The Offer Price and the exact number of Offer Shares will be determined on the basis of a book building process. The Offer Price may be set within, above or below the Offer Price Range. The Offer Price Range is an indicative price range. The Offer Price and the exact number of Offer Shares offered will be determined by the Selling Shareholder, after consultation with the Company and the Joint Global Coordinators after the end of the Offering Period, including any acceleration or extension, on the basis of the book building process and taking into account economic and market conditions, a qualitative and quantitative</p>



assessment of demand for the Offer Shares, and other factors deemed appropriate. The Offer Price, the exact numbers of Offer Shares to be sold and the maximum number of Over-Allotment Shares will be stated in a pricing statement which will be published through a press release that will also be posted on the Company's website and filed with the AFM.

Prior to the Allocation, the number of Offer Shares can be increased or decreased, and the Offer Price Range can be changed. Investors who have already agreed to purchase or subscribe for the Offer Shares during the Offering Period prior to the announcement of any change of the Offer Price Range, shall have the right, exercisable within two business days following the publication of such announcement, to withdraw their acceptances. Any change of the Offer Price Range on the last day of the Offering Period will result in the Offering Period being extended by at least two business days; any change of the Offer Price Range on the day prior to the last day of the Offering Period will result in the Offering Period being extended by at least one business day. In this case, if the Offering Period for the Dutch Retail Investors would already have closed, this Offering Period for Dutch Retail Investors would be reopened. Accordingly, all investors, including Dutch Retail Investors, will have at least two business days to reconsider their subscriptions. Any such change in the number of Offer Shares and/or the Offer Price Range will be announced in a press release that will be posted on the Company's website. Upon a change of the number of Offer Shares, references to Offer Shares in this Prospectus should be read as referring to the amended number of Offer Shares and references to Over-Allotment Shares should be read as referring to the amended number of Over-Allotment Shares.

#### **Subscription and Allocation**

Dutch Retail Investors can only subscribe on a market order (*bestens*) basis. This means that Dutch Retail Investors will be bound to purchase and pay for the Offer Shares indicated in their share application, to the extent allocated to them, at the Offer Price, even if the Offer Price Range has been changed. Dutch Retail Investors are entitled to cancel or amend their application, at the financial intermediary where their original application was submitted, at any time prior to the end of the Offering Period for Dutch Retail Investors (if applicable, as amended or extended), for any reason, including an amendment to increase the Offer Price Range. Dutch Retail Investors can submit their subscriptions through their own financial intermediary. The financial intermediary will be responsible for collecting subscriptions from Dutch Retail Investors and for submitting their subscriptions to ING as the retail coordinator (the "**Retail Coordinator**"). The Retail Coordinator will consolidate all subscriptions of Dutch Retail Investors submitted on an aggregate basis by financial intermediaries and inform the Joint Global Coordinators, the Company and the Selling Shareholder. All questions concerning the timeliness, validity and form of instructions to a financial intermediary in relation to the purchase of Offer Shares and, if applicable, Over-Allotment Shares, will be determined by the financial intermediaries in accordance with their usual procedures or as otherwise notified to the Dutch Retail Investors. The Company and the Selling Shareholder are not liable for any action or

	<p>failure to act by a financial intermediary or the Retail Coordinator in connection with any purchase, or purported purchase, of Offer Shares.</p> <p>The allocation is expected to take place after termination of the Offering Period on or about 26 May 2016, subject to acceleration or extension of the timetable for the Offering. Allotment to investors who applied to subscribe for Offer Shares will be determined by the Selling Shareholder, after consultation with the Company and the Joint Global Coordinators, and full discretion will be exercised as to whether or not and how to allot the Offer Shares. There is no maximum or minimum number of Offer Shares for which prospective investors may subscribe and multiple (applications for) subscriptions are permitted. In the event that the Offering is over-subscribed, investors may receive fewer Offer Shares than they applied to subscribe for. The Selling Shareholder, the Company, the Joint Global Coordinators and the Joint Bookrunners may, at their own discretion and without stating the grounds therefor, reject any subscriptions wholly or partly. Any monies received in respect of subscriptions which are not accepted in whole or in part will be returned to the investors without interest and at the investors' risk.</p> <p><b>Preferential Retail Allocation</b></p> <p>There will be a preferential allocation of Offer Shares to eligible retail investors in the Netherlands in accordance with applicable law and regulations (the "<b>Preferential Retail Allocation</b>"). Each eligible retail investor in the Netherlands (each a "<b>Dutch Retail Investor</b>") will be allocated the first 250 (or fewer) Offer Shares for which such investor applies. However, if the total number of Offer Shares subscribed for by Dutch Retail Investors would exceed 10% of the total number of the Offer Shares, assuming no exercise of the Over-Allotment Option, the preferential allocation to each Dutch Retail Investor may be reduced pro rata to the first 250 (or fewer) Offer Shares for which such investor applies. As a result, Dutch Retail Investors may not be allocated all of the first 250 (or fewer) Offer Shares for which they apply. The exact number of Offer Shares allocated to Dutch Retail Investors will be determined after the Offer Period has ended.</p> <p>The Preferential Retail Allocation will only be made in relation to Offer Shares comprising up to 10% of the total number of Offer Shares, not including the Over-Allotment Shares. The Selling Shareholder, after consultation with the Company and the Joint Global Coordinators has full discretion as to whether or not and how to allocate the remainder of the Offer Shares applied for.</p> <p>For the purpose of the Preferential Retail Allocation, a Dutch Retail Investor is either: (i) a natural person resident in the Netherlands; or (ii) a special investment vehicle having its seat in the Netherlands which is a legal entity established for the express and sole purpose of providing asset management and/or retirement planning services for a natural person.</p> <p>To be eligible for the Preferential Retail Allocation, Dutch Retail Investors must place their subscriptions during the period commencing on 16 May 2016 at 9:00 CET and ending on 25 May 2016 at 17:30 CET through financial intermediaries. Different financial intermediaries may apply deadlines before the closing time of the Offering Period.</p>
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<p><b>E.4</b></p>	<p>Interests material to the Offering (including conflicts of interests)</p>	<p>receipt of customary officers' certificates; (iv) the absence of a material adverse change in the Group's business; (v) the admission of the Ordinary Shares to listing on Euronext Amsterdam; and (vi) certain other customary conditions. The Underwriters will have the right to waive the satisfaction of certain conditions or part thereof.</p> <p>Upon the occurrence of certain specific events, such as the occurrence of: (i) a material adverse change in the Group's business; (ii) a breach of any of the representations and warranties, undertakings or obligations contained in the Underwriting Agreement; or (iii) a statement in this Prospectus, the Pricing Statement or any amendment or supplement to this Prospectus being untrue, inaccurate or misleading, the Underwriters may elect to terminate the Underwriting Agreement.</p> <p><b>Joint Global Coordinators and Joint Bookrunners</b></p> <p>Goldman Sachs International, and J.P. Morgan Securities plc ("<b>J.P. Morgan</b>") are acting as joint global coordinators (the "<b>Joint Global Coordinators</b>") and, together with Citigroup Global Markets Limited ("<b>Citigroup</b>"), ING Bank N.V. ("<b>ING</b>"), Morgan Stanley &amp; Co. International plc ("<b>Morgan Stanley</b>") and Société Générale Corporate &amp; Investment Banking ("<b>Société Générale</b>") as the joint bookrunners (the "<b>Joint Bookrunners</b>").</p> <p><b>Co-Bookrunners</b></p> <p>ABN AMRO Bank N.V. ("<b>ABN AMRO</b>") and Coöperatieve Rabobank U.A. ("<b>Rabobank</b>") are acting as co-bookrunners (the "<b>Co-Bookrunners</b>").</p> <p><b>Underwriters</b></p> <p>The Joint Global Coordinators, the Joint Bookrunners and the Co-Bookrunners are acting as underwriters (the "<b>Underwriters</b>").</p> <p><b>Listing and Paying Agent</b></p> <p>ING is the listing and paying agent with respect to the Ordinary Shares on Euronext Amsterdam.</p> <p><b>Retail Coordinator</b></p> <p>ING is the retail coordinator with respect to the Preferential Retail Allocation.</p> <p><b>Stabilization Manager</b></p> <p>Goldman Sachs International is the stabilization manager (the "<b>Stabilization Manager</b>") with respect to the Shares on Euronext Amsterdam.</p> <p>Certain of the Underwriters and N.M. Rothschild &amp; Sons Limited ("<b>Rothschild</b>" or the "<b>Financial Adviser</b>") and/or their respective affiliates have in the past been engaged, and may in the future, from time to time, engage in commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business with the Company and/or the Selling Shareholder or any parties related to any of them, in respect of which they have received, and may in the future receive, customary fees and commissions.</p>
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<p><b>E.5</b></p>	<p>Person or entity offering to sell the Offer Shares and lock-up arrangements</p>	<p>The Joint Global Coordinators may, in their sole discretion and at any time, waive the restrictions, including those on sales, issuances or transfers of Ordinary Shares, described below.</p> <p>Pursuant to the Underwriting Agreement, the Company and the Selling Shareholder are expected to agree with the Underwriters that, until 180 days from the Settlement Date (the lock-up period), they will not, except as set forth below, without the prior written consent of the Joint Global Coordinators: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequences of ownership of any Ordinary Shares, whether any such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise.</p> <p>Each of the CEO and the CFO is expected to agree with the Underwriters that, until 360 days from the Settlement Date (the lock-up period), they will not, except as set forth below, without the prior written consent of the Joint Global Coordinators: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares that he has purchased in the Offering as described in this Prospectus or any securities convertible into or exercisable or exchangeable for those Ordinary Shares; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequences of ownership of any of those Ordinary Shares, whether any such transaction is to be settled by delivery of those Ordinary Shares or such other securities, in cash or otherwise.</p>

		The foregoing restrictions shall not apply to: (i) accepting a general offer to all holders of the issued and allotted Ordinary Shares of the Company on terms which treat all such holders alike and which has become or been declared unconditional in all respects or been recommended for acceptance by the directors of the Company; and (ii) the granting of awards in options or Ordinary Shares by the Company or the issuance of Ordinary Shares upon exercise of options granted by the Selling Shareholder or the Company pursuant to employee incentive schemes as disclosed or described as being proposed or contemplated in this Prospectus and other offer documents.
<b>E.6</b>	Dilution	Not applicable. As only existing Shares will be offered, the Offering will not have a dilutive effect.
<b>E.7</b>	Estimated expenses charged to the investors by the Company or the Selling Shareholders	Not applicable. No expenses have been or will be charged to the investors by the Company or the Selling Shareholder in relation to the Offering.



## SAMENVATTING

Samenvattingen van prospectussen zijn opgebouwd uit verschillende informatievereisten die ‘Elementen’ worden genoemd. Deze Elementen zijn genummerd als Afdelingen A – E (A.1 – E.7).

Deze samenvatting bevat alle Elementen die in een samenvatting van een prospectus voor dit type effecten en uitgevende instelling dienen te worden opgenomen. Omdat sommige elementen niet verplicht zijn, is het mogelijk dat de nummering van de Elementen niet volledig is.

Hoewel een Element verplicht opgenomen dient te worden in een samenvatting voor dit type effecten en voor deze uitgevende instelling, is het mogelijk dat er geen relevante informatie kan worden gegeven voor een bepaald Element. In dat geval is er een korte beschrijving van het Element opgenomen in de samenvatting met vermelding ‘niet van toepassing’.

### Afdeling A – Inleiding en waarschuwingen

<b>A.1</b>	Inleiding en waarschuwingen	Deze samenvatting moet worden gelezen als een inleiding op het prospectus (het “ <b>Prospectus</b> ”) met betrekking tot de aanbieding (de “ <b>Aanbieding</b> ”) door Koninklijke Philips N.V. (de “ <b>Verkopende Aandeelhouder</b> ”) van 37.500.000 gewone aandelen in het aandelenkapitaal van de Vennootschap (zoals hierna gedefinieerd) met een nominale waarde van €0,01 per aandeel (de “ <b>Aangeboden Aandelen</b> ”, inclusief – tenzij uit de context anders blijkt – de Overtoewijzingsaandelen (zoals hierna gedefinieerd) en de toelating tot de notering van en de handel in de gewone aandelen, met een nominale waarde van €0,01 per aandeel, in het aandelenkapitaal van de Vennootschap (de “ <b>Gewone Aandelen</b> ”), aan Euronext in Amsterdam, een gereguleerde markt die deel uitmaakt van Euronext Amsterdam N.V. (“ <b>Euronext Amsterdam</b> ”). Tenzij uit de context anders blijkt, is een verwijzing naar de Gewone Aandelen tevens een verwijzing naar de Aangeboden Aandelen. Als de Overtoewijzingsoptie (zoals hierna gedefinieerd) niet wordt uitgeoefend, maken de Aangeboden Aandelen 25% uit van de uitgegeven Gewone Aandelen. Als de Overtoewijzingsoptie volledig wordt uitgeoefend, maken de Aangeboden Aandelen 28.75% van de Gewone Aandelen uit. Iedere beslissing om te beleggen in de Gewone Aandelen moet worden gebaseerd zijn op de bestudering van het gehele Prospectus door de belegger. Wanneer een vordering met betrekking tot de informatie in het Prospectus bij een rechterlijke instantie aanhangig wordt gemaakt, zou de belegger die als eiser optreedt volgens de nationale wetgeving van de lidstaten eventueel de kosten voor de vertaling van het Prospectus moeten dragen voordat de rechtsvordering wordt ingesteld. Alleen de personen die de samenvatting, met inbegrip van een vertaling ervan, hebben ingediend, kunnen wettelijk aansprakelijk worden gesteld indien de samenvatting, wanneer zij samen met de andere delen van het Prospectus wordt gelezen, misleidend, onjuist of inconsistent is, of indien zij, wanneer zij samen met de andere delen van het Prospectus wordt gelezen, niet de kerngegevens bevat om beleggers te helpen wanneer zij overwegen in die effecten te investeren.
<b>A.2</b>	Toestemming, aanduiding, voorwaarden en aankondiging	Niet van toepassing. De Vennootschap verleent geen toestemming voor het gebruik van het Prospectus voor de verdere wederverkoop of definitieve plaatsing van de Aangeboden Aandelen door financiële tussenpersonen.

<b>Afdeling B – De Uitgevende Instelling</b>		
<b>B.1</b>	Statutaire en handelsnaam van de Vennootschap	Philips Lighting N.V., per de datum van het Prospectus nog een besloten vennootschap met beperkte aansprakelijkheid, genaamd Philips Lighting NewCo B.V. (de “ <b>Vennootschap</b> ”), die voorafgaand aan de afwikkeling van deze Aanbieding wordt omgezet in een naamloze vennootschap (“ <b>Afwikkeling</b> ”).
<b>B.2</b>	Vestigingsplaats, rechtsvorm, toepasselijk recht en land van oprichting	De Vennootschap is een besloten vennootschap met beperkte aansprakelijkheid naar Nederlands recht en is gevestigd in Nederland. De Vennootschap wordt voorafgaand aan de Afwikkeling omgezet in een naamloze vennootschap. De Vennootschap heeft haar statutaire zetel in Eindhoven.
<b>B.3</b>	Kerngegevens betreffende de aard van de huidige werkzaamheden en belangrijkste bedrijfsactiviteiten van de Groep	<p>De Vennootschap en haar groepsmaatschappijen (zijnde rechtspersonen in de zin van artikel 2:24b van het Burgerlijk Wetboek) (elk afzonderlijk aangeduid als “<b>Groepsmaatschappij</b>” en samen met de Vennootschap, de “<b>Groep</b>”) hebben in termen van omzet een leidende positie op de wereldmarkt met erkende deskundigheid ten aanzien van de ontwikkeling, fabricage en toepassing van innovatieve producten, systemen en diensten op het gebied van verlichting. De Groep is verantwoordelijk voor veel belangrijke doorbraken op het gebied van verlichting in de afgelopen 125 jaar, zoals de gloeilamp, hogedrukontladingslampen (“<b>HID</b>”), fluorescentielampen en compacte fluorescentielampen (“<b>CFL</b>”), en was de drijvende kracht achter diverse technologische veranderingen, waarmee de basis werd gelegd voor haar huidige kracht en leidende positie in de overgang in de verlichtingsindustrie van conventionele verlichtingstechnologieën naar led-verlichtingstechnologieën (“<b>LED</b>”) en verlichtingssystemen (zoals connected verlichting) en diensten. De Groep staat bekend om haar innovatieve kracht en investeert intensief in onderzoek en ontwikkeling (“<b>R&amp;D</b>”) (in totaal 4,9% van de omzet over het jaar 2015) om haar pioniersrol in de technologische ontwikkelingen te behouden. De Groep heeft een sterke octrooiportfolio met meer dan 14.000 octrooirechten, naar haar mening meer dan haar concurrenten, en een licentieprogramma met meer dan 600 licentienemers per 31 maart 2016.</p> <p>De Groep meent dat zij een sterke positie heeft in de verlichtingswaardeketen en richt zich op de algemene verlichtingsmarkt. Het assortiment lichtbronnen van de Groep omvat onder meer gloeilampen, halogeenlampen, fluorescentielampen, rechte fluorescentielampen (“<b>TL</b>”), CFL, HID-lampen en LED-lampen. Daarnaast verkoopt de Groep elektronische componenten, zoals elektronische voorschakelapparaten alsook complete armaturen aan consumenten en professionele gebruikers. De Groep legt de nadruk op het aanbieden van innovatieve, geïntegreerde verlichtingssystemen en -diensten op maat, waaronder verlichtingsbeheersystemen en diensten zoals energie-audits, lichtontwerp en -techniek alsook controle op afstand en managed services. De producten van de Groep worden gebruikt voor verlichting en visualisering in diverse verlichtingstoepassingen, vooral in woningen, op straat en langs de weg, in architectuur, in kantoren, in de industrie, retail en horeca. De Groep produceert ook lichtbronnen en</p>

		<p>verlichtingssystemen voor speciale toepassingen, zoals projectie, bioscoop, entertainment, stadsverfraaiing (dynamische architectonische verlichting) en horticultuur alsook waterzuivering (bijvoorbeeld desinfectie met ultraviolette straling). De gecombineerde ondernemingen van Koninklijke Philips voor LED-componenten en autoverlichtingscomponenten (“<b>Lumileds</b>”) (zoals hierna gedefinieerd) werd in 2015 zelfstandig en de resultaten van deze onderneming zijn niet opgenomen in de financiële resultaten van de Groep.</p> <p>De onderneming van de Groep is functioneel ingedeeld en wordt, op basis van technologie en eindmarkten, geleid door vier bedrijfsonderdelen: BG Lamps, BG LED, BG Professional en BG Home (“<b>BGs</b>”). BG Lamps omvat de conventionele lampen- en lampenelectronica-activiteiten van de Groep, BG LED de LED-lampen- en LED-electronica-activiteiten, BG Professional de professionele armaturen, verlichtingssystemen en –diensten en BG Home de consumenten armaturen en thuisverlichtingssystemen. Elke BG is verantwoordelijk voor de ontwikkeling van haar strategie, productassortiment en de productie en inkoop van haar producten. Daarnaast is de commerciële organisatie van de Groep opgedeeld in vier geografische marktgroepen voor het beheer van haar wereldwijde verkoopkanalen. Dit zijn: Europa, Noord- en Zuid-Amerika, Groeimarkten en Groot-China (“<b>Marktgroepen</b>” of “<b>MG’s</b>”).</p> <p>De Groep heeft een mondiaal bereik en ontplooit haar commerciële activiteiten in ongeveer 180 landen. De Groep heeft operationele fabrieken in 22 landen in belangrijke regio’s in de wereld, en meer dan 70 verkoopkantoren wereldwijd. In landen zonder verkooporganisatie ontplooit de Groep haar commerciële activiteiten via onafhankelijke distributeurs en vertegenwoordigers die nauw samenwerken met de verkooporganisatie van de Groep.</p> <p>De Groep heeft het recht om het Philips merk voor producten en diensten te gebruiken voor een eerste termijn van tien jaar na de afsplitsing van de Groep van Koninklijke Philips (“<b>Afsplitsing</b>”). Deze eerste termijn kan worden verlengd met twee termijnen van vijf jaar als bepaalde financiële doelstellingen in termen van netto omzet worden behaald en als de Groep aan alle eisen van de handelsmerklicentieovereenkomst voldoet. De handelsmerklicentie is onderhevig aan royalty betalingen. De Groep verwacht dat het netto effect van de royalty betalingen aan Koninklijke Philips onder the handelsmerklicentieovereenkomst jaarlijks ongeveer €20 miljoen hoger zullen zijn dan de historische kosten voor de promotie van het Philips handelsmerk die voor het boekjaar 2015 aan de Groep waren gealloceerd zoals weergegeven in de Gecombineerde Jaarrekening (zoals hierna gedefinieerd).</p> <p>In het jaar 2015 behaalde de Groep een omzet van €7.465 miljoen (2014: €6.981 miljoen; 2013: €7.129 miljoen), het bedrijfsresultaat van de Groep bedroeg €331 miljoen (2014: €41 miljoen; 2013: €213 miljoen), de aangepaste EBITDA (geen onderdeel van accountantscontrole) van de Groep bedroeg €739 miljoen (2014: €665 miljoen; 2013: €659 miljoen) en de vrije kasstroom (geen onderdeel van</p>
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		accountantscontrole) van de Groep bedroeg €632 miljoen (2014: €355 miljoen; 2013: €84 miljoen). Over het eerste kwartaal van 2016 geëindigd op 31 maart behaalde de Groep een omzet van €1.702 miljoen, bedroeg het bedrijfsresultaat van de Groep €71 miljoen, bedroeg de aangepaste EBITDA (geen onderdeel van accountantscontrole) van de Groep €161 miljoen en de vrije kasstroom (geen onderdeel van accountantscontrole) van de Groep €9 miljoen. Per 31 maart 2016 had de Groep wereldwijd ongeveer 36.350 medewerkers (Fte's) in dienst.
<b>B.4a</b>	Belangrijke recente trends	<p>De verlichtingmarkt is in een technologische transitie van conventionele verlichting technologieën naar LED-verlichting technologieën. Daarnaast laat de markt voor verlichting op dit moment een snelle transformatie zien die wordt gedreven door met name de volgende drie onderliggende trends:</p> <ul style="list-style-type: none"> <li>• De toenemende behoefte aan licht;</li> <li>• De toenemende vraag naar efficiënter licht; en</li> <li>• De toenemende vraag naar digitaal licht.</li> </ul>
<b>B.5</b>	Omschrijving van de Groep en de positie van de Vennootschap daarin	De Vennootschap is een houdstermaatschappij zonder een materiële eigen bedrijfsvoering. De belangrijkste activa van de Vennootschap zijn de belangen die zij direct of indirect houdt in haar Groepsmaatschappijen.
<b>B.6</b>	Aandeelhouders van de Vennootschap	<p>De Verkopende Aandeelhouder is de enige houder van Aandelen (zoals hierna gedefinieerd) (“<b>Aandeelhouder</b>”) die per de datum van het Prospectus (direct dan wel indirect) een substantiële deelneming bezit, dat wil zeggen ten minste 3% van het aandelenkapitaal of de stemrechten in de zin van de Wet op het financieel toezicht, in de Vennootschap. De Verkopende Aandeelhouder houdt per de datum van het Prospectus 100 Gewone Aandelen en is derhalve houdster van 100% van het totaal uitgegeven en geplaatste aandelenkapitaal van de Vennootschap.</p> <p>Elk Aandeel geeft recht op het uitbrengen van één stem op de algemene vergadering van aandeelhouders van de Vennootschap (“<b>Algemene Vergadering</b>”). Alle Aandeelhouders hebben dezelfde stemrechten.</p>
<b>B.7</b>	Geselecteerde belangrijke historische financiële informatie	Dit Prospectus bevat gecombineerde financiële informatie van de Groep, die is afgeleid uit de, in overeenstemming met IFRS (zoals aangenomen door de EU en zoals uitgegeven door de IASB) opgemaakte, gecombineerde jaarrekening van de Groep per en over de jaren tot aan 31 december 2015, 31 december 2014 en 31 december 2013 (de “ <b>Gecombineerde Jaarrekening</b> ”), en die is gebaseerd op de geconsolideerde jaarrekening van de Verkopende Aandeelhouder en haar dochtermaatschappijen in de zin van artikel 2:24b BW (“ <b>Koninklijke Philips</b> ”) alsook haar boekhouding. De Gecombineerde Jaarrekening is gebaseerd op “ <i>carve-out</i> ” financiële informatie van de geconsolideerde jaarrekening van Koninklijke Philips voor het presenteren van de financiële positie, bedrijfsresultaten en kasstromen van de Groep als zelfstandige entiteit. De Groep bestond eerder niet als een rapporterende groep en daarom is er eerder geen afzonderlijke (verplichte) geconsolideerde jaarrekening opgemaakt. Dientengevolge weerspiegelt de Gecombineerde Jaarrekening niet noodzakelijkerwijs het bedrijfsresultaat, de financiële

		<p>toestand en de kasstromen van de Groep waarvan sprake was geweest als zij in de in het Prospectus gepresenteerde periode als een afzonderlijke, zelfstandige groep had opgetreden en is deze niet noodzakelijkerwijs leidend voor de toekomstige bedrijfsresultaten, financiële toestand en kasstromen van de Groep.</p> <p>Dit Prospectus bevat daarnaast de verkorte gecombineerde interim jaarrekening van de Groep voor de driemaandperiode geëindigd op 31 maart 2016 en 2015 en de toelichting daarop (de “<b>Verkorte Gecombineerde Interim Jaarrekening</b>”). De Verkorte Gecombineerde Interim Jaarrekening is opgemaakt op basis van IAS 34.</p>																																																																																																																																																																																																																												
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.</td> <td><b>54</b></td> <td><b>53</b></td> <td><b>323</b></td> <td><b>35</b></td> <td><b>212</b></td> </tr> <tr> <td>Winstbelasting . . . . .</td> <td>(40)</td> <td>(23)</td> <td>(83)</td> <td>(66)</td> <td>(45)</td> </tr> <tr> <td><b>Winst na belasting</b> . . . . .</td> <td><b>14</b></td> <td><b>30</b></td> <td><b>240</b></td> <td><b>(31)</b></td> <td><b>167</b></td> </tr> <tr> <td>Resultaten verband houdende met investering in deelnemingen . . . . .</td> <td>—</td> <td>—</td> <td>—</td> <td>2</td> <td>1</td> </tr> <tr> <td><b>Netto opbrengsten (verlies)</b> . . . . .</td> <td><b>14</b></td> <td><b>30</b></td> <td><b>240</b></td> <td><b>(29)</b></td> <td><b>168</b></td> </tr> </tbody> </table> <p><b>Gecombineerde balans</b></p> <table border="1"> <thead> <tr> <th rowspan="3"><i>In miljoenen euro's</i></th> <th colspan="2"><b>Per 31 maart (niet gecontroleerd)</b></th> <th colspan="3"><b>Per 31 december</b></th> </tr> <tr> <th><b>2016</b></th> <th><b>2015</b></th> 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(1,075)	(1,106)	(4.810)	(4.671)	(4.573)	<b>Bruto marge</b> . . . . .	<b>627</b>	<b>621</b>	<b>(2.655)</b>	<b>2.310</b>	<b>2.556</b>	Verkoopkosten . . . . .	(430)	(430)	(1.751)	(1.657)	(1.722)	Onderzoeks- en ontwikkelingskosten . . . . .	(90)	(88)	(366)	(395)	(375)	Algemene en administratieve kosten . . . . .	(49)	(50)	(233)	(223)	(233)	Waardevermindering van goodwill . . . . .	(2)	—	—	(2)	(26)	Overige bedrijfsinkomsten . . . . .	18	2	48	13	31	Overige bedrijfskosten . . . . .	(3)	—	(22)	(5)	(18)	<b>Bedrijfsresultaat</b> . . . . .	<b>71</b>	<b>55</b>	<b>331</b>	<b>41</b>	<b>213</b>	Financiële baten . . . . .	4	—	3	3	3	Financiële lasten . . . . .	(21)	(2)	(11)	(9)	(4)	<b>Winst voor belasting</b> . . . . .	<b>54</b>	<b>53</b>	<b>323</b>	<b>35</b>	<b>212</b>	Winstbelasting . . . . .	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(1,391)	(1.336)	(1.214)	(1.027)		Totale immateriële activa . . . . .	805	856	906	772		Langlopende vorderingen . . . . .	16	20	10	8		Investerings in deelnemingen . . . . .	23	23	24	27		Overige financiële vaste activa . . . . .	58	8	23	22		Uitgestelde belastingvorderingen . . . . .	409	259	241	212		Overige vaste activa . . . . .	19	15	4	4		<b>Totale vaste activa</b> . . . . .	<b>3,714</b>	<b>3.659</b>	<b>3.606</b>	<b>3.333</b>	
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Overige bedrijfskosten . . . . .	(3)	—	(22)	(5)	(18)																																																																																																																																																																																																																									
<b>Bedrijfsresultaat</b> . . . . .	<b>71</b>	<b>55</b>	<b>331</b>	<b>41</b>	<b>213</b>																																																																																																																																																																																																																									
Financiële baten . . . . .	4	—	3	3	3																																																																																																																																																																																																																									
Financiële lasten . . . . .	(21)	(2)	(11)	(9)	(4)																																																																																																																																																																																																																									
<b>Winst voor belasting</b> . . . . .	<b>54</b>	<b>53</b>	<b>323</b>	<b>35</b>	<b>212</b>																																																																																																																																																																																																																									
Winstbelasting . . . . .	(40)	(23)	(83)	(66)	(45)																																																																																																																																																																																																																									
<b>Winst na belasting</b> . . . . .	<b>14</b>	<b>30</b>	<b>240</b>	<b>(31)</b>	<b>167</b>																																																																																																																																																																																																																									
Resultaten verband houdende met investering in deelnemingen . . . . .	—	—	—	2	1																																																																																																																																																																																																																									
<b>Netto opbrengsten (verlies)</b> . . . . .	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>																																																																																																																																																																																																																									
<i>In miljoenen euro's</i>	<b>Per 31 maart (niet gecontroleerd)</b>		<b>Per 31 december</b>																																																																																																																																																																																																																											
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>																																																																																																																																																																																																																									
	<b>Vaste activa</b>																																																																																																																																																																																																																													
<i>Materiële vaste activa:</i>																																																																																																																																																																																																																														
<i>Kostprijs</i> . . . . .	2,634	2.620	2.840	2.767																																																																																																																																																																																																																										
<i>Gecumuleerde afschrijvingen</i> . . . . .	(2,031)	(1.986)	(2.118)	(1.937)																																																																																																																																																																																																																										
Totale materiële vaste activa . . . . .	603	634	722	830																																																																																																																																																																																																																										
Goodwill . . . . .	1,781	1.844	1.676	1.458																																																																																																																																																																																																																										
<i>Immateriële activa:</i>																																																																																																																																																																																																																														
<i>Kostprijs</i> . . . . .	2,196	2.192	2.120	1.799																																																																																																																																																																																																																										
<i>Gecumuleerde afschrijvingen</i> . . . . .	(1,391)	(1.336)	(1.214)	(1.027)																																																																																																																																																																																																																										
Totale immateriële activa . . . . .	805	856	906	772																																																																																																																																																																																																																										
Langlopende vorderingen . . . . .	16	20	10	8																																																																																																																																																																																																																										
Investerings in deelnemingen . . . . .	23	23	24	27																																																																																																																																																																																																																										
Overige financiële vaste activa . . . . .	58	8	23	22																																																																																																																																																																																																																										
Uitgestelde belastingvorderingen . . . . .	409	259	241	212																																																																																																																																																																																																																										
Overige vaste activa . . . . .	19	15	4	4																																																																																																																																																																																																																										
<b>Totale vaste activa</b> . . . . .	<b>3,714</b>	<b>3.659</b>	<b>3.606</b>	<b>3.333</b>																																																																																																																																																																																																																										

<i>In miljoenen euro's</i>	<b>Per 31 maart (niet gecontroleerd)</b>			
	<b>Per 31 december</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b><i>Vlottende activa</i></b>				
Vorraden .....	1,010	988	996	983
Overige vlottende activa .....	48	46	65	52
Financiële activa - derivaten .....	10	9	17	20
Vordering inkomstenbelasting .....	30	25	8	7
<i>Vorderingen:</i>				
Vorderingen .....	1,344	1.436	1.455	1.289
<i>Vorderingen op verbonden partijen – Koninklijke Philips</i>				
Overige kortlopende vorderingen .....	65	83	3	13
	<u>103</u>	<u>80</u>	<u>87</u>	<u>69</u>
Totale vorderingen .....	1,512	1.599	1.545	1.371
<i>Activa geclassificeerd als aangehouden voor verkoop</i>				
Kortlopende vorderingen	52	34	20	15
Koninklijke Philips .....	207	—	—	—
Liquide middelen .....	353	83	75	49
	<u>3,222</u>	<u>2.784</u>	<u>2.726</u>	<u>2.497</u>
<b>Totale vlottende activa .....</b>	<b>3,222</b>	<b>2.784</b>	<b>2.726</b>	<b>2.497</b>
<b>Totale activa .....</b>	<b>6,936</b>	<b>6.443</b>	<b>6.332</b>	<b>5.830</b>
<b><i>Eigen vermogen</i></b>				
Netto investering eigenaar .....	3,011	3.513	3.495	3.297
Minderheidsbelang .....	110	103	88	2
	<u>3,121</u>	<u>3.616</u>	<u>3.583</u>	<u>3.299</u>
<b>Bedrijfsvermogen .....</b>	<b>3,121</b>	<b>3.616</b>	<b>3.583</b>	<b>3.299</b>
<b><i>Langlopende verplichtingen</i></b>				
Langlopende schuld .....	18	2	41	6
Langlopende voorzieningen .....	678	350	461	348
<i>Uitgestelde belastingverplichtingen</i>				
Overige langlopende verplichtingen .....	38	126	150	132
	<u>320</u>	<u>159</u>	<u>158</u>	<u>145</u>
<b>Totale langlopende verplichtingen .....</b>	<b>1,054</b>	<b>637</b>	<b>810</b>	<b>631</b>
<b><i>Kortlopende verplichtingen</i></b>				
Kortlopende schuld .....	95	86	49	2
<i>Kortlopende schuld Koninklijke Philips</i>				
Financiële verplichtingen	645	—	—	—
– derivaten .....	13	7	15	22
Verschuldigde winstbelasting .....	23	6	14	10
<i>Crediteuren en verhandelbare schuldpapieren:</i>				
Handelscrediteuren .....	765	940	847	867
<i>Aan verbonden partijen verschuldigde vorderingen – Koninklijke Philips</i>				
	<u>147</u>	<u>111</u>	<u>37</u>	<u>20</u>
Totale crediteuren en verhandelbare schuldpapieren .....	912	1,051	884	887
Overlopende passiva .....	404	459	447	459
Kortlopende voorzieningen .....	266	263	240	227
<i>Verplichtingen in verband met activa geclassificeerd als aangehouden voor verkoop</i>				
Overige kortlopende verplichtingen .....	10	6	—	—
	<u>393</u>	<u>312</u>	<u>290</u>	<u>293</u>
<b>Totale kortlopende verplichtingen .....</b>	<b>2,761</b>	<b>2.190</b>	<b>1.939</b>	<b>1.900</b>
<b>Totale verplichtingen .....</b>	<b>3,815</b>	<b>2.827</b>	<b>2.749</b>	<b>2.531</b>
<b>Totale verplichtingen en bedrijfsvermogen .....</b>	<b>6,936</b>	<b>6.443</b>	<b>6.332</b>	<b>5.830</b>

<b>Gecombineerde kasstroomoverzichten</b>					
<i>In miljoenen euro's</i>	<b>Over het eerste kwartaal geëindigd op 31 maart (niet gecontroleerd)</b>		<b>Voor jaareinde 31 december</b>		
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b><i>Kasstromen uit operationele activiteiten</i></b>					
<b>Netto winst (verlies)</b> . . . . .	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>
Afschrijving, amortisatie & waardevermindering van niet-financiële activa . . . . .	78	73	315	381	390
Waardevermindering van niet-financiële activa . . . . .	3	—	4	—	—
Netto voordeel uit verkoop van activa . . . . .	(1)	—	(26)	(2)	(1)
Rentebaten . . . . .	(4)	—	(3)	(3)	(3)
Rentelasten op schulden, leningen en overige verplichtingen . . . . .	18	2	7	9	4
Winstbelasting . . . . .	40	23	83	66	45
Op aandelen gebaseerde beloning . . . . .	6	7	24	22	27
Afname (toename) van werkkapitaal . . . . .	(102)	79	209	(33)	(231)
<i>Afname (toename) van vorderingen en overige vlottende activa</i> . . . . .	28	28	—	(17)	(206)
<i>Afname (toename) van voorraden</i> . . . . .	(47)	(65)	29	114	(94)
<i>Toename (afname) van crediteuren, overlopende passiva en overige kortlopende verplichtingen</i> . . . . .	(83)	116	180	(130)	69
Toename (afname) van langlopende vorderingen en overige activa en verplichtingen . . . . .	(63)	2	(29)	—	4
Toename (afname) van voorzieningen . . . . .	(31)	(23)	(79)	116	(86)
Afname (toename) van activa geclassificeerd als aangehouden voor verkoop . . . . .	—	—	—	(1)	(1)
Betaalde rente . . . . .	(1)	(2)	(2)	(5)	—
Betaalde winstbelasting . . . . .	(17)	(7)	(26)	(43)	(54)
<b>Netto kasstroom uit operationele activiteiten</b> . . . . .	<b>(60)</b>	<b>184</b>	<b>717</b>	<b>478</b>	<b>262</b>
<b><i>Kasstromen uit investeringsactiviteiten</i></b>					
Netto kapitaalinvesteringen . . . . .	(18)	(28)	(85)	(123)	(178)
<i>Toevoeging van immateriële activa</i> . . . . .	(4)	(8)	(38)	(51)	(38)
<i>Kapitaalinvesteringen in materiële vaste activa</i> . . . . .	(16)	(20)	(98)	(109)	(159)
<i>Opbrengsten uit verkoop van materiële vaste activa</i> . . . . .	2	—	51	37	19
Opbrengsten uit overige vaste financiële activa . . . . .	—	17	31	—	—
Aankoop van bedrijven, gecorrigeerd voor meegekocht kasgeld . . . . .	—	(3)	(11)	(125)	—
Ontvangen dividend uit investeringen in deelnemingen . . . . .	—	—	—	(1)	2
<b>Netto kasstroom gebruikt voor investeringsactiviteiten</b> . . . . .	<b>(18)</b>	<b>(14)</b>	<b>(65)</b>	<b>(249)</b>	<b>(176)</b>



<i>In miljoenen euro's</i>	<b>Over het eerste kwartaal eindigend op 31 maart (niet gecontroleerd)</b>		<b>Voor jaareinde 31 december</b>			
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	
<b>Kasstromen uit financieringsactiviteiten</b>						
Financiering van (betaling aan)						
Koninklijke Philips .....	(349)	(149)	(626)	(200)	(95)	
Kapitaalbreng van Koninklijke Philips .....	692	—	—	—	—	
Opbrengst uit uitgifte (betalingen) van schuldpapieren .....	3	(24)	(12)	(1)	(2)	
<b>Netto geldmiddelen gebruikt voor financieringsactiviteiten .....</b>	<b>346</b>	<b>(173)</b>	<b>(638)</b>	<b>(201)</b>	<b>(97)</b>	
<b>Netto geldmiddelen (gebruikt voor) uit doorlopende operaties .....</b>	<b>268</b>	<b>(3)</b>	<b>14</b>	<b>28</b>	<b>(11)</b>	
Gevolgen van wisselkoersschommelingen voor liquide middelen .....	2	(9)	(6)	(2)	2	
Liquide middelen aan begin van de periode .....	83	75	75	49	58	
<b>Liquide middelen aan eind van de periode .....</b>	<b>353</b>	<b>63</b>	<b>83</b>	<b>75</b>	<b>49</b>	
<b>Bedrijfsonderdeel informatie</b>						
De onderneming van de Groep is functioneel ingedeeld en wordt, op basis van technologie en eindmarkten, geleid door vier operationele bedrijfsonderdelen: BG Lamps, BG LED, BG Professional en BG Home. Sommige innovatieactiviteiten van de Groep, alsook bepaalde kosten die verband houden met het hoofdkantoor van de Groep, worden niet weerspiegeld in de financiële resultaten van de BGs, en worden in dit Prospectus beschreven onder "Overig".						
<i>In miljoenen euro's</i>	<b>BG Lamps</b>	<b>BG LED</b>	<b>BG Professional</b>	<b>BG Home</b>	<b>Overig</b>	<b>Totaal</b>
<b>Over het eerste kwartaal geëindigd op 31 maart van 2016</b>						
Omzet .....	615	355	601	124	7	<b>1,702</b>
Inkomsten uit bedrijfsactiviteiten .....	113	19	(25)	(15)	(21)	<b>71</b>
<b>Over het eerste kwartaal geëindigd op 31 maart van 2015</b>						
Omzet .....	727	275	610	112	3	<b>1,727</b>
Inkomsten uit bedrijfsactiviteiten .....	106	2	(19)	(19)	(15)	<b>55</b>
<b>Over het jaar 2015 geëindigd op 31 december</b>						
Omzet .....	2.850	1.334	2.757	515	9	<b>7.465</b>
Inkomsten uit bedrijfsactiviteiten .....	403	66	14	(73)	(79)	<b>331</b>
<b>Over het jaar 2014 geëindigd op 31 december</b>						
Omzet .....	3.119	958	2.420	482	2	<b>6.981</b>
Inkomsten uit bedrijfsactiviteiten .....	356	(62)	(56)	(70)	(127)	<b>41</b>
<b>Over het jaar 2013 geëindigd op 31 december</b>						
Omzet .....	3.557	772	2.308	490	2	<b>7.129</b>
Inkomsten uit bedrijfsactiviteiten .....	586	(20)	(75)	(152)	(126)	<b>213</b>

<b>B.8</b>	Geselecteerde belangrijke pro forma financiële informatie	Niet van toepassing. Het Prospectus bevat geen pro forma financiële informatie.
<b>B.9</b>	Winstprognose	Niet van toepassing. De Vennootschap heeft geen winstprognose afgegeven.
<b>B.10</b>	Vorbehouden in de afgifte van verklaring van accountant betreffende de historisch financiële informatie	Niet van toepassing. De accountantsverklaring bevat geen voorbehouden ten aanzien van de historische financiële informatie voor de jaren geëindigd op 31 december 2015, 2014 en 2013.
<b>B.11</b>	Verklaring in geval van onvoldoende werkkapitaal	De Vennootschap meent dat het voor de Groep beschikbare werkkapitaal voldoende toereikend is om aan de huidige financiële verplichtingen van de Groep te voldoen, ten minste voor de periode van twaalf maanden vanaf de datum van het Prospectus.
<b>Afdeling C – Effecten</b>		
<b>C.1</b>	Soort en klasse en het security identification number	Alle Gewone Aandelen zijn gewone aandelen in het geplaatste en uitstaande aandelenkapitaal van de Vennootschap, met een nominale waarde van €0,01 per aandeel.  Er is een aanvraag ingediend voor een notering van alle Gewone Aandelen onder het symbool “LIGHT” aan Euronext Amsterdam, met ISIN Code: NL0011821392.
<b>C.2</b>	Valuta van de Aangeboden Aandelen	De Aangeboden Aandelen worden uitgedrukt en verhandeld in euro's.
<b>C.3</b>	Aantal Aandelen en nominale waarde per Aandeel	Per de datum van het Prospectus bedraagt het aandelenkapitaal van de Vennootschap €6,000,000, bestaande uit 300,000,000 Gewone Aandelen met een nominale waarde van €0,01 per aandeel en 300,000,000 preferente aandelen met een nominale waarde van €0,01 per aandeel (de “ <b>Preferente Aandelen</b> ”, en gezamenlijk met de Gewone Aandelen, de “ <b>Aandelen</b> ”). Het geplaatste en uitstaande aandelenkapitaal van de Vennootschap is €1, bestaande uit honderd Gewone Aandelen en geen Preferente Aandelen.  Per de datum van het Prospectus houdt de Vennootschap geen Gewone Aandelen.
<b>C.4</b>	Rechten verbonden aan de Aandelen	Elke verwijzing hieronder naar de “ <b>Statuten</b> ” is een verwijzing naar de statuten van de Vennootschap zoals deze luiden na de datum waarop betaling (in euro's) voor en levering van de Aangeboden Aandelen (de <b>Afwikkeling</b> ) plaatsvindt hetgeen wordt verwacht plaats te vinden op of omstreeks 31 mei 2016, onder voorbehoud van inkorting of verlenging van het tijdschema voor de Aanbieding (de “ <b>Afwikkelingsdatum</b> ”).  Op de Gewone Aandelen rust een dividendrecht. Elk Gewoon Aandeel geeft recht tot het uitbrengen van één stem tijdens de Algemene Vergadering. Het stemrecht is niet aan beperkingen onderhevig.  Bij de uitgifte van Gewone Aandelen tegen contante betaling wordt aan elke Aandeelhouder een voorkeursrecht toegekend in verhouding tot de nominale waarde van zijn totale Gewone Aandelen. Het voorkeursrecht geldt niet ten aanzien van Aandelen die tegen inbreng in natura worden uitgegeven, Aandelen die worden uitgegeven aan werknemers van de Vennootschap of van een Groepsmaatschappij, of Aandelen die worden uitgegeven aan een persoon die een eerder toegekend recht tot het nemen van Aandelen uitoefent.

		<p>De raad van bestuur van de Vennootschap (de “<b>Raad van Bestuur</b>”) kan besluiten het voorkeursrecht te beperken of uit te sluiten, voor zover de Raad van Bestuur door de Algemene Vergadering daartoe is aangewezen. Indien de Raad van Bestuur niet bevoegd is om te beslissen tot uitgifte van Aandelen, is de Algemene Vergadering, op voorstel van de Raad van Bestuur, bevoegd tot het beperken of uitsluiten van voorkeursrechten. Een dergelijk voorstel moet worden goedgekeurd door de raad van commissarissen van de Vennootschap (de “<b>Raad van Commissarissen</b>”). Voor een besluit van de Algemene Vergadering is een meerderheid vereist van ten minste twee derde van de uitgebrachte stemmen indien minder dan de helft van het geplaatste aandelenkapitaal in de Algemene Vergadering is vertegenwoordigd.</p> <p>Bij de uitgifte van Preferente Aandelen bestaat geen voorkeursrecht. Houders van Preferente Aandelen hebben geen voorkeursrecht ten opzichte van Gewone Aandelen.</p> <p>Zoals hierboven uiteengezet, is de Raad van Bestuur door de Algemene Vergadering gemachtigd te besluiten tot de uitgifte van Gewone Aandelen, tot het verlenen van rechten tot het nemen van Gewone Aandelen en tot het beperken en/of uitsluiten van het wettelijk voorkeursrecht met betrekking tot de uitgifte van Gewone Aandelen of de verlening van rechten tot het nemen van Aandelen. Genoemde machtiging van de Raad van Bestuur is beperkt tot 10% van het totale nominale geplaatste aandelenkapitaal van de Vennootschap per de Afwikkelingsdatum plus een extra 10% van het nominale geplaatste aandelenkapitaal van de Vennootschap per de Afwikkelingsdatum in verband met of in het geval van fusies en overnames en strategische allianties en is met ingang van die datum 18 maanden geldig.</p>
<b>C.5</b>	Beperkingen op de overdraagbaarheid van de Aangeboden Aandelen	<p>Voor een overdracht van een Aandeel of een beperkt recht op dat Aandeel is een akte van overdracht en de schriftelijke erkenning van de overdracht door de Vennootschap vereist.</p> <p>Een Aandeel wordt een giraal aandeel door overdracht of uitgifte aan het Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“<b>Euroclear Nederland</b>”) of aan een tussenpersoon, met schriftelijke vermelding dat het aandeel een giraal aandeel is. Het girale aandeel moet worden opgenomen in het aandeelhoudersregister van de Vennootschap op naam van Euroclear Nederland of de desbetreffende tussenpersoon, met de schriftelijke vermelding dat het een giraal aandeel betreft. Girale aandeelhouders worden niet opgenomen in het aandeelhoudersregister van de Vennootschap. Girale aandelen kunnen uitsluitend worden geleverd vanuit een collectief depot of girodepot met inachtneming van de toepasselijke bepalingen van de Wet giraal effectenverkeer. De overdracht door een girale aandeelhouder van zijn girale rechten vindt plaats in overeenstemming met de bepalingen van de Wet giraal effectenverkeer. Hetzelfde geldt voor de vestiging van een pandrecht en de vestiging of overdracht van een vruchtgebruik op deze girale rechten.</p>
<b>C.6</b>	Notering en toelating tot de handel van de Aangeboden Aandelen	<p>Er bestaat voorafgaand aan de Aanbieding geen openbare markt voor de Gewone Aandelen. Er is een aanvraag ingediend voor een notering van alle Gewone Aandelen aan Euronext Amsterdam onder het symbool “LIGHT” met ISIN code NL0011821392. Afhankelijk van eventuele inkorting of</p>

		verlenging van het tijdschema van de Aanbieding, wordt verwacht dat de handel in de Aangeboden Aandelen aan Euronext Amsterdam zal beginnen, op een <i>as-if-and-when-delivered</i> basis, op of omstreeks 27 mei 2016 (de “ <b>Eerste Handelsdag</b> ”).
C.7	Dividendbeleid	De Vennootschap streeft naar een jaarlijkse contante dividenduitkering van 40% tot 50% van de gecorrigeerde netto inkomsten. <sup>2</sup> De Vennootschap verwacht de eerste dividenduitkering te kunnen doen in 2017, en deze zal zijn gebaseerd op de resultaten over heel 2016. Er kunnen geen garanties worden gegeven dat in een bepaald jaar dividend zal worden uitgekeerd. De eventuele uitkering van dividend en de bedragen en timing daarvan zullen van verschillende factoren afhankelijk zijn, waaronder toekomstige resultaten, winsten, financiële en algemene economische en bedrijfsomstandigheden, prognoses en al die factoren die de Raad van Bestuur mogelijk van belang acht alsook andere eisen in wet- en regelgeving; veel van deze factoren kunnen buiten de macht van de Vennootschap liggen. Er kunnen geen garanties worden gegeven dat de prestaties van de Groep de naleving van het dividendbeleid of een verhoging van het dividendpercentage mogelijk zullen maken, en in het bijzonder zal de Vennootschap mogelijk minder of geen dividend kunnen uitkeren als een van de in dit Prospectus beschreven risico’s zich voordoet. Verder zal de Raad van Bestuur het dividendbeleid van de Vennootschap van tijd tot tijd herzien en eventueel wijzigen.
<b>Afdeling D – Risico’s</b>		
D.1	Selectie van belangrijkste risico’s	<p>Het volgende is een selectie van de belangrijkste risico’s die betrekking hebben op de industrie, onderneming en bedrijfsactiviteiten van de Groep, de Afsplitsing en de oprichting van de Vennootschap als een onafhankelijke beursgenoteerde onderneming, juridische en nalevingsrisico’s, financiële risico’s, risico’s die samenhangen met de Gewone Aandelen en risico’s die samenhangen met de Aanbieding en de Aangeboden Aandelen. Bij het maken van de selectie heeft de Groep onder meer rekening gehouden met de waarschijnlijkheid naar huidige omstandigheden dat het risico zich verwezenlijkt, de mogelijke impact die een verwezenlijking van het risico zou kunnen hebben op de onderneming, de financiële situatie, het operationeel resultaat en vooruitzichten van de Groep, en de aandacht die deze risico’s naar de huidige verwachting bij verwezenlijking behoeven van het management van de Groep. Beleggers dienen alle risico’s te lezen, te begrijpen en te overwegen, welke risico’s materieel zijn en in hun geheel gelezen dienen te worden in het hoofdstuk “Risk Factors” beginnend op pagina 51 van het Prospectus, voordat zij een beslissing nemen om in de Aangeboden Aandelen te beleggen.</p> <ul style="list-style-type: none"> <li>• Met haar wereldwijde en cyclische activiteiten is de Groep gevoelig voor negatieve economische en politieke ontwikkelingen in landen en industrieën over de hele wereld.</li> </ul>

<sup>2</sup> Gecorrigeerde netto inkomsten worden gedefinieerd als netto inkomsten uit normale bedrijfsactiviteiten, ofwel netto inkomsten met uitzondering van uitzonderlijke bedrijfsactiviteiten en materiële niet-terugkerende items.

		<ul style="list-style-type: none"> <li>• In de verlichtingsindustrie is een technologische transitie gaande van conventionele verlichtingstechnologieën naar LED-verlichtingstechnologieën en het is mogelijk dat de Groep er niet in slaagt hiermee succesvol om te gaan.</li> <li>• Snelle technologische veranderingen en de overgang van conventionele verlichtingstechnologieën naar LED-verlichtingstechnologieën kunnen het bedrijfsmodel van de Groep ontwrichten en vragen mogelijk om andere aanpassingen van het bedrijfsmodel, met inbegrip van verkoop en marketing, onderzoek en ontwikkeling, toeleveringsketenbeheer en inkoopprocessen.</li> <li>• De lichtmarkt waarin de Groep opereert, kent een sterke concurrentie aangezien daarin naast andere traditionele verlichtingsfabrikanten op de markt van LED-verlichting ook nieuwkomers over de hele wereld actief zijn. Bovendien zal het concurrentielandschap wellicht veranderen onder invloed van toenemende verticale integratie.</li> <li>• De Groep heeft aanzienlijk geïnvesteerd in de ontwikkeling van haar aanbod van verlichtingssystemen (waaronder connected verlichtingssystemen) en verlichtingsdiensten. Het is niet gegarandeerd dat de strategie van de Groep op dit punt met succes zal worden geïmplementeerd of dat de Groep de verwachte opbrengst van deze strategie volledig zal kunnen genereren.</li> <li>• De huidige en toekomstige programma's van de Groep voor bedrijfstransformatie zijn kostbaar of kunnen dat in de toekomst worden, worden mogelijk niet succesvol geïmplementeerd en leiden mogelijk niet tot de verwachte mate van prestatieverbetering van de Groep.</li> <li>• De Groep zal van tijd tot tijd aankopen doen en andere transacties aangaan ter aanvulling of uitbreiding van haar huidige onderneming. De Groep zou evenwel niet kunnen slagen in het doen van geschikte aankopen tegen de juiste prijs en het integreren daarvan in haar bedrijfsactiviteiten, en aankopen leiden mogelijk tot een verschuiving van de aandacht van management.</li> <li>• Als gevolg van de Afsplitsing heeft de Vennootschap voor dit Prospectus, op basis van "carve-out" financiële informatie, een Gecombineerde Jaarrekening van de Groep opgemaakt. De financiële informatie in dit Prospectus verschilt daarom van de financiën waarvan sprake was geweest als de Vennootschap een onafhankelijke vennootschap was geweest en deze informatie is derhalve niet noodzakelijkerwijs representatief voor de historische of toekomstige positie van de Vennootschap als een afzonderlijke beursgenoteerde onderneming.</li> <li>• De daadwerkelijke pensioenverplichtingen en kosten na de Afsplitsing kunnen aanmerkelijk verschillen van wat wordt weergegeven in de Gecombineerde Jaarrekening.</li> <li>• De Groep zou er niet in kunnen slagen een nieuwe bedrijfs- en merkidentiteit te creëren.</li> </ul>
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		<ul style="list-style-type: none"> <li>• Het verleden van de gecombineerde Groep, de Afsplitsing van de Groep van Koninklijke Philips en de Aanbieding kunnen nadelige fiscale gevolgen hebben.</li> <li>• De Groep opereert in meerdere jurisdicties en moet zich houden aan de fiscale wetgeving van die jurisdicties, en dat brengt fiscale risico's voor de Groep met zich mee.</li> </ul>
<b>D.2</b>	Belangrijkste risico's die kenmerkend zijn voor de Groep	<p>Het volgende is een samenvatting van alle andere belangrijkste risico's die betrekking hebben op de industrie, onderneming en bedrijfsactiviteiten van de Groep, de Afsplitsing en de oprichting van de Vennootschap als een onafhankelijke beursgenoteerde onderneming, juridische en nalevingsrisico's, financiële risico's, risico's die samenhangen met de Gewone Aandelen en risico's die samenhangen met de Aanbieding en de Aangeboden Aandelen. Beleggers dienen alle risico's te lezen, te begrijpen en te overwegen, welke risico's materieel zijn en in hun geheel gelezen dienen te worden in het hoofdstuk "Risk Factors" beginnend op pagina 51 van het Prospectus, voordat zij een beslissing nemen om in de Aangeboden Aandelen te beleggen.</p> <p><b>Risico's voor de industrie, onderneming en bedrijfsactiviteiten van de Groep</b></p> <ul style="list-style-type: none"> <li>• Er bestaat geen garantie dat de strategie van de Groep ten aanzien van deze overgang van conventionele verlichtingstechnologieën naar LED-verlichtingstechnologieën, naast het optimaliseren van het genereren van kasstromen uit de onderneming rond conventionele lampen, succesvol zal zijn.</li> <li>• Een belangrijk deel van de bestaande operationele fabrieken van de Groep is overbodig geworden of zal overbodig worden als gevolg van de overgang van conventionele verlichtingstechnologieën naar LED-verlichtingstechnologieën, hetgeen heeft geresulteerd in en naar verwachting zal blijven resulteren in een aanzienlijke kostenpost voor de Groep.</li> <li>• De Groep slaagt er mogelijk niet in de sterk afkalvende prijzen die kenmerkend zijn voor de markt van LED-lampen op te vangen door middel van grotere volumes, productiviteitsverbetering, productinnovaties en kostenbeheersing.</li> <li>• Of en in welke mate de Groep in staat is om effectief te concurreren hangt af van haar vermogen om met haar producten, systemen en diensten onderscheidend te zijn ten opzichte van haar concurrenten.</li> <li>• Initiatieven tot kostenbesparingen die nodig zijn voor het behoud en de verhoging van winstmarges en grotere kasstromen, hebben mogelijk niet het gewenste effect.</li> <li>• De onderneming van de Groep kan grote negatieve gevolgen ondervinden van verlies van belangrijke klanten of wijzigingen van de inkoopvoorwaarden van belangrijke klanten.</li> <li>• De fabrieks- en leveringsactiviteiten van de Groep verschuiven van een in-house-productiemodel naar een "asset-light"-outsourcing model, dat de Groep in toenemende mate afhankelijk maakt van externe leveranciers en een effectief toeleveringsketenbeheer.</li> </ul>

		<ul style="list-style-type: none"> <li>• De Groep is voor bepaalde cruciale componenten en grondstoffen afhankelijk van externe leveranciers, wat het risico van prijsverhogingen of tekorten met zich meebrengt.</li> <li>• De Groep steunt voor haar wereldwijde distributie van LED-lampen op de fabricage daarvan in Azië, en kan daardoor te maken hebben met lange levertijden.</li> <li>• Hoge vaste kosten van de Groep kunnen, in combinatie met lage opbrengsten, in moeilijke marktomstandigheden een negatief effect hebben op de resultaten van de Groep.</li> <li>• De Groep kan verliezen lijden in verband met het binnenhalen, uitvoeren en beheren van complexe verlichtingsprojecten.</li> <li>• De Groep heeft minder dan 100% van de aandelen in handen van sommige van haar vennootschappen en neemt deel aan joint ventures of gelieerde vennootschappen waarvan de eigendomsstructuur bepaalde risico's met zich meebrengt.</li> <li>• De Groep zal van tijd tot tijd met bepaalde productlijnen, ondernemingen of markten willen stoppen maar slaagt daar mogelijk niet in.</li> <li>• Het risico van onbevoegd gebruik van intellectuele eigendomsrechten van de Groep kan mogelijk schade berokkenen aan de onderneming, de bedrijfsresultaten en de financiële toestand van de Groep.</li> <li>• De Groep heeft voor haar producten en diensten mogelijk toegang nodig tot intellectuele eigendomsrechten van derden en derden kunnen intellectuele eigendomsrechten inroepen tegen de Groep.</li> <li>• De Groep stelt hoge kwaliteitseisen aan haar producten maar het kan zijn dat producten gebreken vertonen of anderszins niet aan de eisen voldoen. Kwaliteitsgebreken kunnen leiden tot minder verkopen en kosten in verband met garantie of productaansprakelijkheidsclaims dan wel het terugroepen van gebrekkige producten.</li> <li>• De Groep kan aanzienlijke verliezen lijden ingeval van een natuurramp, terroristische aanslag of andere calamiteit in markten waarin zij actief is.</li> <li>• De Groep gaat uit van een ononderbroken verloop van haar productiestromen en beschikbare informatietechnologiesystemen ("IT"), en loopt het risico van onderbreking, verlies van gegevens, bedreigingen van de IT-veiligheid, computercriminaliteit en inbreuken op de vertrouwelijkheid en integriteit van gegevens.</li> <li>• De Groep is afhankelijk van haar personeel waar het gaat om leidinggeven en specialistische vakkennis. Wanneer zij niet meer in staat is dergelijk personeel aan te trekken en te behouden, kan dit haar onderneming negatief beïnvloeden.</li> <li>• De Groep is afhankelijk van haar relatie met haar werknemers. Stakingen en andere arbeidsconflicten alsook loonstijgingen of indirecte arbeidskosten kunnen een substantieel, nadelig effect hebben voor haar onderneming.</li> </ul>
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		<p><b>Risico's die samenhangen met de Afsplitsing en de oprichting van de Vennootschap als een onafhankelijke beursgenoteerde onderneming</b></p> <ul style="list-style-type: none"> <li>• De Groep steunt na de Afsplitsing op Koninklijke Philips voor het leveren van bepaalde diensten waaronder IT-diensten, en het is mogelijk dat de Groep niet in staat zal zijn om tijdig en kosteneffectief die wijzigingen door te voeren die nodig zijn om als een volledig onafhankelijke vennootschap te kunnen opereren.</li> <li>• De Groep zou aanspraken op essentiële intellectuele eigendomsrechten kunnen verliezen als gevolg van het feit dat zij niet meer een bedrijfs onderdeel van Koninklijke Philips is.</li> <li>• Potentiële vrijwaringsverplichtingen jegens Koninklijke Philips ingevolge de overeenkomst tussen Philips Lighting Holding B.V. en de Verkopende Aandeelhouder van 1 februari 2016 ter zake van de Afsplitsing (de “<b>Afsplitsingsovereenkomst</b>”) zouden voor de Groep substantiële verplichtingen tot gevolg kunnen hebben.</li> <li>• In verband met de Afsplitsing stemt Koninklijke Philips ermee in de Groep te vrijwaren tegen bepaalde aansprakelijkheden. Er bestaat evenwel geen garantie dat de vrijwaring voldoende is om de Groep te beschermen tegen het volledige bedrag van zulke aansprakelijkheden, of dat Koninklijke Philips ook in de toekomst in staat zal zijn aan haar vrijwaringsverplichting te voldoen.</li> <li>• Na de Aanbieding zal Koninklijke Philips nog steeds in een positie verkeren waarin zij substantieel invloed kan uitoefenen op de Vennootschap, en haar belangen kunnen afwijken van die van de overige Aandeelhouders van de Vennootschap.</li> <li>• Als onafhankelijk opererende Vennootschap kan de Vennootschap te maken krijgen met een toename in administratieve, financiële en aanverwante kosten.</li> </ul> <p><b>Juridische en nalevingsrisico's</b></p> <ul style="list-style-type: none"> <li>• De Groep is of kan in de toekomst worden betrokken bij juridische procedures.</li> <li>• Wezenlijke veranderingen in toepasselijke wet- en regelgeving dan wel in de interpretatie of handhaving daarvan, zouden de onderneming, de bedrijfsresultaten, de financiële toestand en de vooruitzichten van de Groep ernstig kunnen schaden.</li> <li>• De onderneming, de bedrijfsresultaten, de financiële toestand en de vooruitzichten van de Groep zouden ernstig nadelig kunnen worden geraakt door schendingen van mededingingswetten.</li> </ul>
		<ul style="list-style-type: none"> <li>• De onderneming en de bedrijfsactiviteiten van de Groep zouden ernstige nadelige gevolgen kunnen ondervinden van schendingen van de <i>U.S. Foreign Corrupt Practices Act</i>, de <i>United Kingdom Bribery Act 2010</i> of van vergelijkbare anti-omkopingwetgeving in andere landen.</li> <li>• De Groep moet zich houden aan strenge wetgeving op het gebied van de bescherming van persoonsgegevens en loopt daarom risico op hogere nalevingskosten en inbreuken op vertrouwelijkheid en beveiliging.</li> </ul>

		<ul style="list-style-type: none"> <li>• De onderneming en de bedrijfsactiviteiten van de Groep zouden nadelige gevolgen kunnen ondervinden van schendingen van wetgeving inzake exportcontrole en internationale sancties.</li> <li>• De Groep wordt blootgesteld aan risico's met betrekking tot financiële rapportage en interne controles.</li> <li>• De Groep staat bloot aan milieu-aansprakelijkheidsrisico's, moet voldoen aan milieuregelgeving en maakt kosten om aan zulke regels te voldoen.</li> </ul> <p><b>Financiële risico's</b></p> <ul style="list-style-type: none"> <li>• De Groep loopt wisselkoersrisico's, met name ten opzichte van de euro.</li> <li>• De Groep loopt het risico van beperkte toegang tot schuldfinanciering.</li> <li>• De Groep loopt renterisico's.</li> <li>• De Groep zou nadelige invloed kunnen ondervinden van beperkingen op grond van regelgeving ten aanzien van grensoverschrijdende betalingsstromen of valutaomrekeningen.</li> <li>• De Groep staat bloot aan tegenpartijrisico/kredietrisico van klanten en financiële instellingen.</li> <li>• De Groep staat bloot aan verschillende fiscale onzekerheden met mogelijk aanzienlijke gevolgen voor lokale fiscale resultaten.</li> <li>• Het risico bestaat dat de Groep te maken krijgt met waardevermindering van goodwill van aangekochte bedrijven.</li> <li>• De Groep heeft in verschillende landen pensioenregelingen en ziektekostenregelingen voor gepensioneerden. De dekkingsstatus en de kosten om deze regelingen in stand te houden staan onder invloed van bewegingen in de financiële markten en demografische ontwikkelingen, en deze regelingen zouden een negatief effect kunnen hebben op de financiële situatie van de Groep.</li> </ul>
<p><b>D.3</b></p>	<p>Belangrijke risico's verbonden aan de Aandelen en de Aanbieding</p>	<p><b>Risico's die samenhangen met de Gewone Aandelen</b></p> <ul style="list-style-type: none"> <li>• Of en in welke mate in de toekomst dividend wordt uitgekeerd, hangt af van de bedrijfsresultaten en de financiële staat van de Groep en van de resultaten, en van de uitkeringen aan de Vennootschap door de werkmaatschappijen binnen de Groep.</li> <li>• De marktprijs van Gewone Aandelen kan nadelig beïnvloed worden door toekomstige uitgifte door de Vennootschap van Gewone Aandelen of schuldinstrumenten of andere effecten die converteerbaar zijn in Gewone Aandelen, of de toekomstige verkoop van een aanzienlijk aantal Gewone Aandelen door Koninklijke Philips of de verwachting dat dit gaat gebeuren, en door een toekomstige uitgifte van Gewone Aandelen kan het aandelenbezit van bestaande Aandeelhouders verwateren. Hoewel verwacht wordt dat de Vennootschap en Koninklijke Philips in de Underwriting Overeenkomst (zoals hierna gedefinieerd) instemmen met bepaalde beperkingen ten aanzien van de uitgifte, verkoop of</li> </ul>

		<p>overdracht van Gewone Aandelen gedurende een periode van 180 dagen na de Afwikkelingsdatum, zijn de Joint Global Coordinators (zoals hierna gedefinieerd) gerechtigd, geheel naar eigen inzicht en op elk moment, afstand te doen van die beperkingen.</p> <ul style="list-style-type: none"> <li>• Houders van Gewone Aandelen buiten Nederland zijn mogelijk niet in staat om hun voorkeursrecht uit te oefenen bij toekomstige aanbiedingen, en kunnen als gevolg daarvan verwatering ervaren.</li> <li>• Bepalingen in de Statuten en in contracten die de Groep is aangegaan, kunnen vertragend werken ingeval van pogingen tot overname die gunstig zouden kunnen zijn voor de houders van Gewone Aandelen, of deze pogingen zelfs verhinderen.</li> </ul> <p><b>Risico's die samenhangen met de Aanbieding en de Aangeboden Aandelen</b></p> <ul style="list-style-type: none"> <li>• De Gewone Aandelen zijn voorafgaand aan de Aanbieding niet op de publieke markt verhandeld en er is geen enkele garantie dat er een actieve en liquide markt voor de Aandelen ontstaat.</li> <li>• De marktprijs van de Gewone Aandelen van de Vennootschap kan aanzienlijk fluctueren en het risico bestaat dat beleggers hun gehele inleg of een deel ervan kwijtraken.</li> <li>• Als de afwikkeling van de Aanbieding niet plaatsvindt, worden inschrijvingen op de Aangeboden Aandelen buiten beschouwing gelaten en gaan transacties in de Aangeboden Aandelen die reeds zijn uitgevoerd, teniet.</li> </ul>
<b>Afdeling E – Aanbieding</b>		
<b>E.1</b>	Netto opbrengst en geschatte kosten	<p>De Vennootschap zal geen opbrengsten van de Aanbieding ontvangen; de netto opbrengst is bestemd voor de Verkopende Aandeelhouder.</p> <p>Na aftrek van de met de Aanbieding verband houdende kosten, commissies en belastingen van circa €47.000.000, die de Verkopende Aandeelhouder verschuldigd is, verwacht de Verkopende Aandeelhouder een netto opbrengst te ontvangen van €721.750.000. Dit is gebaseerd op een Aanbiedingsprijs in het midden van de Bandbreedte van de Aanbiedingsprijs (zoals hierna gedefinieerd) en op basis van de verwachting dat alle Aangeboden Aandelen door de Verkopende Aandeelhouder worden verkocht en dat de door de Verkopende Aandeelhouder in verband met de Aanbieding te verlenen overtoewijzingsoptie (de “<b>Overtoewijzingsoptie</b>”) niet wordt uitgeoefend.</p> <p>De door de Vennootschap verschuldigde kosten, commissies en belastingen in verband met de Aanbieding bedragen naar schatting €47 miljoen met inbegrip van onder meer de aan de Nederlandse Stichting Autoriteit Financiële Markten (“<b>AFM</b>”) en Euronext Amsterdam verschuldigde bedragen, de commissie voor de Underwriters (zoals hierna gedefinieerd) alsook de overige juridische en administratieve kosten en eventuele kosten van publicatie en toepasselijke belastingen.</p>

<p><b>E.2a</b></p>	<p>Redenen voor de Aanbieding en bestemming van de opbrengsten</p>	<p>Op 23 september 2014 kondigde de Verkopende Aandeelhouder aan zijn strategische focus te willen aanscherpen door Koninklijke Philips op te delen in twee grote vennootschappen voor de markten van gezondheidstechnologie en verlichting. In een door Koninklijke Philips op 19 maart 2015 gepubliceerde aandeelhouderscirculaire, gaf Koninklijke Philips aan dat gezondheidstechnologie en verlichting beide aantrekkelijke eindmarkten zijn, maar dat deze markten elk hun eigen unieke klantbehoeften, value drivers, industrietrends en concurrentiedynamiek kennen. Daarom achtte Koninklijke Philips de tijd rijp voor de oprichting van twee onafhankelijke vennootschappen, ieder met de focus op haar eigen eindmarkt:</p> <ul style="list-style-type: none"> <li>• Koninklijke Philips, dat zich richt op nieuwe kansen op het gebied van gezondheidstechnologie door haar bestaande gezondheidszorg- en consumentenlifestyle-ondernemingen te combineren; en</li> <li>• de Groep, die de bestaande verlichtingsonderneming van Koninklijke Philips zal voortzetten (met uitzondering van Lumileds, dat onderdeel zal blijven van Koninklijke Philips) en die zich zal richten op verdere groei in LED-verlichtingsproducten, -systemen en -diensten.</li> </ul> <p>De Groep meent, en Koninklijke Philips heeft de Groep laten weten dat ook zij meent, dat de Groep, als onderneming die zich na de Afsplitsing uitsluitend zal richten op verlichting, een sterke positie zal hebben voor het leveren van aandeelhouders- en ondernemingswaarde, en wel om de volgende redenen:</p> <ul style="list-style-type: none"> <li>• de Afsplitsing zal de Groep in staat stellen zich te richten op haar eigen bedrijfsprioriteiten en strategieën waardoor zij deze effectiever gestalte zal kunnen geven, en de Afsplitsing zal het management van de Groep in staat stellen zich uitsluitend te concentreren op de behoeften van de verlichtingsonderneming en duidelijke kansen te creëren voor groei en winstgevendheid op de lange termijn;</li> <li>• de Afsplitsing zal de Groep toestaan haar financiële middelen uitsluitend in te zetten voor haar eigen activiteiten, met aldus grotere flexibiliteit voor kapitaalinvesteringen in de onderneming op een voor haar strategie en bedrijfsbehoeften geschikt moment en passende wijze waardoor er een efficiëntere verdeling van kapitaal mogelijk zal zijn;</li> <li>• door de Afsplitsing ontstaat een afzonderlijk verlichtingsbedrijf met een vereenvoudigde organisatiestructuur en een grotere focus op de behoeften van de verlichtingsonderneming die een snellere besluitvorming en meer flexibiliteit mogelijk maakt, de concurrentiepositie van de Groep versterkt en haar in staat stelt sneller te reageren op veranderende consumentenbehoeften en marktbewegingen;</li> <li>• de Afsplitsing zal een onafhankelijke vermogensstructuur creëren die de Groep directe toegang tot kapitaalmarkten geeft en die de Groep in staat stelt te profiteren van haar groeimogelijkheden en om in de toekomst te gaan investeren (waaronder ook begrepen overnames), zo nodig met gebruikmaking van haar gewone aandelen; en</li> </ul>
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		<ul style="list-style-type: none"> <li>• door de Afsplitsing worden stimuleringsregelingen voor werknemers van de Groep mogelijk die directer samenhangen met de prestatie van de onderneming van de Groep en zal de werving en het behoud van werknemers kunnen verbeteren door, onder andere, een betere afstemming van incentives voor management en werknemers met prestaties en groeidoelen.</li> </ul> <p>Hoewel de Vennootschap meent dat zij om deze redenen een goede positie heeft om aandeelhouders- en ondernemingswaarde te leveren, kan de Vennootschap niet garanderen dat de hiervoor beschreven of andere voordelen na de Afsplitsing zullen worden gerealiseerd, noch dat dit zal gebeuren in de verwachte mate.</p> <p>De Vennootschap zal geen inkomsten uit de Aanbieding ontvangen.</p>
<p><b>E.3</b></p>	<p>Algemene voorwaarden van de Aanbieding</p>	<p><b>Aangeboden Aandelen</b></p> <p>De Verkopende Aandeelhouder zal 37.500.000 Aangeboden Aandelen aanbieden. De Aanbieding bestaat uit (i) een openbare aanbieding aan institutionele beleggers en particuliere beleggers in Nederland en (ii) een onderhandse plaatsing bij (a) beleggers buiten Nederland en de Verenigde Staten (de “V.S.” of “<b>Verenigde Staten</b>”), met inachtneming van toepasselijke uitzonderingen op de prospectusvereisten en (b) beleggers in de Verenigde Staten waarvan redelijkerwijs kan worden aangenomen dat het gaat om “gekwalificeerde institutionele kopers” (“<i>qualified institutional buyers</i>” of “<b>QIB’s</b>”) zoals gedefinieerd in <i>Rule 144A</i> onder de U.S. Securities Act van 1933, zoals gewijzigd (de “<i>U.S. Securities Act</i>”) (“<b>Rule 144A</b>”). Alle aanbiedingen en verkopen in de Verenigde Staten zullen uitsluitend worden gedaan aan personen van wie redelijkerwijs kan worden aangenomen dat zij <i>QIB’s</i> ingevolge <i>Rule 144A</i> zijn. Alle aanbiedingen en verkopen buiten de Verenigde Staten zullen plaatsvinden in overeenstemming met <i>Regulation S</i> onder de <i>U.S. Securities Act</i> (“<b>Regulation S</b>”). De Aanbieding vindt uitsluitend plaats in die jurisdicties waarin, en uitsluitend aan personen aan wie de Aanbieding rechtsgeldig gedaan mag worden.</p> <p><b>Overtoewijzingsoptie</b></p> <p>De Verkopende Aandeelhouder verwacht de Joint Global Coordinators, handelend namens de Underwriters (zoals hierna gedefinieerd), een Overtoewijzingsoptie toe te kennen, die binnen 30 kalenderdagen na de Eerste Handelsdag moet worden uitgeoefend, en op grond waarvan de Stabilisatiemanager (zoals hierna gedefinieerd) van de Verkopende Aandeelhouder kan eisen dat hij maximaal 5.625.000 Overtoewijzingsaandelen, die maximaal 15% van het totaal aantal Aangeboden Aandelen dat verkocht wordt in de Aanbieding (de “<b>Overtoewijzingsaandelen</b>”), verkoopt tegen de Aanbiedingsprijs om eventuele short posities te dekken die ontstaan zijn door overtoewijzing in verband met de Aanbieding.</p> <p><b>Aanbiedingsperiode</b></p> <p>Behoudens inkorting of verlenging van het tijdschema voor de Aanbieding, kunnen toekomstige beleggers zich inschrijven op Aangeboden Aandelen gedurende de periode vanaf 9:00 uur Midden-Europese Tijd (“<b>CET</b>”) op 16 mei 2016 tot 12:00 CET op 26 mei 2016 (de “<b>Aanbiedingsperiode</b>”).</p>

		<p>De Aanbiedingsperiode voor Nederlandse Particuliere Beleggers (zoals hierna gedefinieerd) sluit om 17:30 CET op 25 mei 2016.</p> <p><b>Aanbiedingsprijs en aantal Aangeboden Aandelen</b></p> <p>De Aanbiedingsprijs zal naar verwachting liggen tussen €18,50 en €22,50 per Aangeboden Aandeel (de “<b>Bandbreedte van de Aanbiedingsprijs</b>”). De Aanbiedingsprijs en het exacte aantal Aangeboden Aandelen zal worden bepaald op basis van een <i>book building</i> proces. De Aanbiedingsprijs kan hoger of lager dan de Bandbreedte van de Aanbiedingsprijs worden gesteld. De Bandbreedte van de Aanbiedingsprijs is een indicatieve bandbreedte. De Aanbiedingsprijs en het daadwerkelijke aantal Aangeboden Aandelen dat wordt aangeboden zal worden bepaald nadat de Aanbiedingsperiode voorbij is, behoudens eventuele inkorting of verlenging daarvan, door de Verkopende Aandeelhouder, na overleg met de Vennootschap en de Joint Global Coordinators op basis van het <i>book building</i> proces en met inachtneming van economische en marktfactoren, een kwalitatieve en kwantitatieve beoordeling van de vraag naar de Aangeboden Aandelen en overige toepasselijk geachte factoren. De Aanbiedingsprijs, het daadwerkelijke aantal te verkopen Aangeboden Aandelen en het maximum aantal Overtoewijzingsaandelen worden vermeld in een prijsverklaring die wordt bekendgemaakt in een persbericht dat tevens wordt gepubliceerd op de website van de Vennootschap en wordt ingediend bij de AFM.</p> <p>Voorafgaand aan de Toewijzing kan het aantal Aangeboden Aandelen worden verhoogd of verlaagd, en kan de Bandbreedte van de Aanbiedingsprijs worden aangepast. Beleggers die reeds hebben ingestemd met de aankoop van of inschrijving op de Aangeboden Aandelen gedurende de Inschrijvingsperiode voorafgaand aan de aankondiging van een wijziging van de Bandbreedte van de Aanbiedingsprijs, hebben het recht om binnen twee werkdagen na de publicatie van deze aankondiging, hun instemming in te trekken. Elke wijziging van de Bandbreedte van de Aanbiedingsprijs op de laatste dag van de Aanbiedingsperiode heeft tot gevolg dat de Aanbiedingsperiode wordt verlengd met ten minste twee werkdagen; elke wijziging van de Bandbreedte van de Aanbiedingsprijs op de dag voorafgaand aan de laatste dag van de Aanbiedingsperiode heeft tot gevolg dat de Aanbiedingsperiode wordt verlengd met ten minste één werkdag. In dit geval, wanneer de Aanbiedingsperiode voor de Nederlandse Particuliere Beleggers reeds zou zijn gesloten, wordt deze Aanbiedingsperiode voor de Nederlandse Particuliere Beleggers heropend. Aldus hebben alle beleggers, ook Nederlandse Particuliere Beleggers, ten minste twee werkdagen om te beslissen over hun inschrijving. Een dergelijke wijziging in het aantal Aangeboden Aandelen en/of de Bandbreedte van de Aanbiedingsprijs zal worden bekendgemaakt in een persbericht dat op de website van de Vennootschap zal worden gepubliceerd. Bij een wijziging van het aantal Aangeboden Aandelen moeten verwijzingen in dit Prospectus naar de Aangeboden Aandelen tevens worden gelezen als verwijzingen naar het gewijzigde aantal Aangeboden Aandelen en moeten verwijzingen naar Overtoewijzingsaandelen worden gelezen als verwijzingen naar het gewijzigde aantal Overtoewijzingsaandelen.</p>
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	<p><b>Inschrijvingen en toewijzing</b></p> <p>Nederlandse Particuliere Beleggers kunnen enkel inschrijven op basis van een “bestens” order. Dit betekent dat Nederlandse Particuliere Beleggers verplicht zijn tot koop en betaling van Aangeboden Aandelen zoals vermeld in hun aanvraag, voor zover deze aan hen zijn toegewezen, voor de Aanbiedingsprijs, zelfs als de Bandbreedte van de Aanbiedingsprijs is veranderd. Nederlandse Particuliere Beleggers hebben het recht hun aanvraag te annuleren of aan te passen bij de financiële tussenpersoon waar de aanvraag in de eerste plaats was ingediend ten allen tijde voor het einde van de Aanbiedingsperiode voor Nederlandse Particuliere Beleggers (indien van toepassing, zoals aangepast of verlengd), voor welke reden dan ook, inclusief een aanpassing van de Bandbreedte van de Aanbiedingsprijs naar boven. Nederlandse Particuliere Beleggers kunnen hun inschrijving indienen via hun eigen financiële tussenpersoon. De financiële tussenpersoon zal verantwoordelijk zijn voor het verzamelen van inschrijvingen van Nederlandse Particuliere Beleggers en het indienen van hun inschrijvingen bij ING als de retail coördinator (de “<b>Retail Coördinator</b>”). De Retail Coördinator bundelt alle inschrijvingen van Nederlandse Particuliere Beleggers die door financiële tussenpersonen ingediend zijn op een geaggregeerde basis en stelt de Joint Global Coördinators, de Vennootschap en de Verkopende Aandeelhouder daarvan in kennis. Alle kwesties met betrekking tot de tijdigheid, geldigheid en vorm van instructies aan een financiële tussenpersoon met betrekking tot de koop van Aangeboden Aandelen, zullen worden vastgesteld door de financiële tussenpersonen in overeenstemming met hun gebruikelijke procedures of anderszins zoals medegedeeld aan de Nederlandse Particuliere Beleggers. De Vennootschap en de Verkopende Aandeelhouder zijn niet aansprakelijk voor enige handelen of nalaten door een financiële tussenpersoon of de Retail Coördinator in verband met enige inschrijving, koop, of vermeende aankoop, van Aangeboden Aandelen.</p> <p>Toewijzing van de aangeboden aandelen vindt naar verwachting plaats na afloop van de Aanbiedingsperiode, op of omstreeks 26 mei 2016, behoudens eventuele inkorting of verlenging van het tijdschema voor de Aanbieding. Toewijzing aan beleggers die hebben aangegeven te willen inschrijven op Aangeboden Aandelen geschiedt door de Verkopende Aandeelhouder, na overleg met de Vennootschap en de Joint Global Coordinators. De Verkopende Aandeelhouder kan geheel naar eigen inzicht bepalen of en hoe de Aangeboden Aandelen worden toegewezen. Er is geen minimum of maximum aantal Aangeboden Aandelen waarop toekomstige beleggers kunnen inschrijven en het is toegestaan om meerdere (aanvragen voor) inschrijvingen in te dienen. Ingeval op meer Aandelen wordt ingeschreven dan Aandelen worden aangeboden, kunnen beleggers minder Aangeboden Aandelen ontvangen dan waarop zij hebben ingeschreven. De Verkopende Aandeelhouder, de Vennootschap, de Joint Global Coordinators en de Joint Bookrunners mogen, geheel naar eigen inzicht en zonder opgaaf van redenen, inschrijvingen geheel of gedeeltelijk weigeren. Gelden die zijn ontvangen voor inschrijvingen die niet (volledig) worden geaccepteerd, zullen, zonder rente en op risico van de belegger, worden geretourneerd.</p>
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### **Preferente toewijzing aan particuliere beleggers**

In aanmerking komende particuliere beleggers in Nederland hebben voorrang bij het toekennen van de Aangeboden Aandelen in overeenstemming met de toepasselijke wet- en regelgeving (de “**Preferente Toewijzing aan Particuliere Beleggers**”). Aan elke in aanmerking komende particuliere belegger in Nederland (elk een “**Nederlandse Particuliere Belegger**”) worden de eerste 250 (of minder) Aangeboden Aandelen toegewezen waarop hij heeft ingeschreven. Als het totaal aantal Aangeboden Aandelen waarop Nederlandse Particuliere Beleggers hebben ingeschreven meer bedraagt dan 10% van het totaal aantal Aangeboden Aandelen (en ervan uitgaand dat de Overtoewijzingsoptie niet wordt uitgeoefend), kan de preferente toewijzing aan elke Nederlandse Particuliere Belegger verhoudingsgewijs worden verlaagd tot de eerste 250 (of minder) Aangeboden Aandelen waarop de betreffende belegger heeft ingeschreven. Dit houdt in dat aan Nederlandse Particuliere Beleggers mogelijk niet alle eerste 250 (of minder) Aangeboden Aandelen waarop zij hebben ingeschreven worden toegewezen. Het exacte aantal Aangeboden Aandelen dat wordt toegewezen aan Nederlandse Particuliere Beleggers wordt vastgesteld na afloop van de Aanbiedingsperiode.

De Preferente Toewijzing aan Nederlandse Particuliere Beleggers zal uitsluitend plaatsvinden ten aanzien van de Aangeboden Aandelen die maximaal 10% uitmaken van het totaal aantal Aangeboden Aandelen, met uitzondering van de Overtoewijzingsaandelen. De Verkopende Aandeelhouder kan, na overleg met de Vennootschap en de Joint Global Coordinators, geheel naar eigen inzicht bepalen of en hoe de overgebleven Aangeboden Aandelen waarop is ingeschreven zullen worden toegewezen.

In het geval van Preferente Toewijzing aan Particuliere Beleggers wordt onder een Nederlandse Particuliere Beleggers verstaan, ofwel: (i) een in Nederland woonachtig natuurlijk persoon; ofwel (ii) een in Nederland gevestigd speciaal investeringsvehikel met rechtspersoonlijkheid, opgericht met als uitdrukkelijk en enig doel vermogensbeheer en/of pensioenplanning voor een natuurlijk persoon.

Om in aanmerking te komen voor Preferente Toewijzing aan Particuliere Beleggers, moeten Nederlandse Particuliere Beleggers hun inschrijving indienen in de periode tussen 9:00 uur CET op 16 mei 2016 en 17:30 CET op 25 mei 2016 via financiële tussenpersonen. Verschillende financiële tussenpersonen kunnen deadlines toepassen voor het einde van de Aanbiedingsperiode.

De Retail Coördinator stelt de financiële tussenpersonen in kennis van het totale aantal Aangeboden Aandelen dat aan hun respectievelijke Nederlandse Particuliere Beleggers is toegewezen. Het is aan de financiële tussenpersonen om die Nederlandse Particuliere Beleggers op de hoogte te brengen van hun individuele toewijzingen.

### **Betaling**

Het voor de Aangeboden Aandelen verschuldigd bedrag dient te worden voldaan (in euro's) en de Aangeboden Aandelen worden geleverd op de Afwikkelingsdatum. Mogelijk verschuldigde belastingen en kosten zijn voor rekening van de

belegger. Aan Nederlandse Particuliere Beleggers kunnen kosten in rekening worden gebracht door hun financiële tussenpersonen. Beleggers moeten de Aanbiedingsprijs volledig in euro's betalen met terstond beschikbare financiële middelen op of voor de Afwikkelingsdatum (of eerder ingeval de Aanbiedingsperiode eerder sluit en vaststelling van de prijs en toewijzing worden vervroegd en de handel en afwikkeling eerder beginnen).

#### **Levering van de Aandelen**

De Aangeboden Aandelen worden giraal geleverd met gebruikmaking van de faciliteiten van Euroclear Nederland. Levering van de Aangeboden Aandelen vindt plaats op de Afwikkelingsdatum, via de girale faciliteiten van Euroclear Nederland, in overeenstemming met de gebruikelijke toepasselijke afwikkelingsprocedures voor aandelen en tegen betaling (in euro's) voor de Aangeboden Aandelen en de eventuele Overtoewijzingsaandelen, met terstond beschikbare financiële middelen.

Indien de afwikkeling niet plaatsvindt op de Afwikkelingsdatum zoals gepland, of helemaal niet plaatsvindt, kan de Aanbieding worden ingetrokken. In dat geval worden alle inschrijvingen op Aangeboden Aandelen als niet gedaan beschouwd, worden alle toewijzingen geacht niet te hebben plaatsgevonden en worden eventueel bij de inschrijving betaalde gelden geretourneerd, zonder rente of andere vergoeding. Alle handel in Gewone Aandelen voorafgaand aan de Afwikkeling vindt plaats voor het uitsluitende risico van de betrokken partijen.

#### **Underwriting Overeenkomst**

De Vennootschap, de Verkopende Aandeelhouder, en de Underwriters (zoals hierna gedefinieerd) gaan na het einde van de Aanbiedingsperiode en alleen na prijsbepaling en toewijzing van alle Aangeboden Aandelen aan investeerders naar verwachting op of omstreeks 26 mei 2016 een overeenkomst aan (de "**Underwriting Overeenkomst**"). Onder de voorwaarden en met inachtneming van de bepalingen in de Underwriting Overeenkomst, gaan de Underwriters er ieder afzonderlijk maar niet hoofdelijk mee akkoord kopers aan te brengen voor deze Aangeboden Aandelen, of, bij gebreke daarvan, zelf te kopen, en gaat de Verkopende Aandeelhouder ermee akkoord deze Aangeboden Aandelen tegen de Aanbiedingsprijs te verkopen aan de kopers die de Underwriters hebben aangebracht of, bij gebreke daarvan, aan de Underwriters zelf.

In de Underwriting Overeenkomst geeft de Vennootschap een aantal garanties af. Daarnaast vrijwaart de Vennootschap, en, voor een beperkt aantal zaken, vrijwaart de Verkopende Aandeelhouder, de Underwriters tegen bepaalde verliezen en aansprakelijkheden in verband met de Aanbieding.

De Underwriting Overeenkomst zal bepalen dat de verplichting van de Underwriters om kopers aan te brengen of, bij gebreke daarvan, de Aangeboden Aandelen zelf te kopen, is onderworpen aan onder andere de volgende voorwaarden: (i) de goedkeuring door de AFM van het Prospectus is van kracht, (ii) opinies van juridische adviseurs over bepaalde juridische

		<p>zaken zijn verkregen, (iii) de gebruikelijke certificaten zijn afgegeven door daartoe bevoegde personen, (iv) de afwezigheid van wezenlijke nadelige wijzigingen in de onderneming van de Groep, (v) het toelaten van de Gewone Aandelen tot de handel van de Aandelen op Euronext Amsterdam, en (vi) bepaalde andere gebruikelijke voorwaarden. De Underwriters hebben het recht afstand te doen van bepaalde voorwaarden of van een deel daarvan.</p> <p>Tot de Afwikkelingsdatum hebben de Underwriters, indien zich bepaalde specifieke gebeurtenissen voordoen, zoals (i) wezenlijk nadelige wijzigingen in de onderneming van de Groep; (ii) het niet-naleven van de afgegeven garanties, toezeggingen of verplichtingen in de Underwriting Overeenkomst of (iii) een onware, onjuiste, of misleidende verklaring in het Prospectus, in de Prijsverklaring, en in elke andere wijziging of supplement van het Prospectus, het recht de Underwriting Overeenkomst te beëindigen.</p> <p><b>Joint Global Coordinators en Joint Bookrunners</b></p> <p>Goldman Sachs International, en J.P. Morgan Securities plc (“<b>J.P. Morgan</b>”) treden op als joint global coordinators (de “<b>Joint Global Coordinators</b>”) en, gezamenlijk met Citigroup Global Markets Limited (“<b>Citigroup</b>”), ING Bank N.V. (“<b>ING</b>”), Morgan Stanley &amp; Co. International plc (“<b>Morgan Stanley</b>”) en Société Générale Corporate &amp; Investment Banking (“<b>Société Générale</b>”) als de joint bookrunners (de “<b>Joint Bookrunners</b>”).</p> <p><b>Co-Bookrunners</b></p> <p>ABN AMRO Bank N.V. (“<b>ABN AMRO</b>”) en Coöperatieve Rabobank U.A. (“<b>Rabobank</b>”) treden op als co-bookrunners (de “<b>Co-Bookrunners</b>”).</p> <p><b>Underwriters</b></p> <p>De Joint Global Coordinators, de Joint Bookrunners en de Co-Bookrunners treden op als underwriters (de “<b>Underwriters</b>”).</p> <p><b>Noteringsagent en betaalkantoor</b></p> <p>ING treedt op als noteringsagent (<i>listing agent</i>) en betaalkantoor (<i>paying agent</i>) met betrekking tot de Gewone Aandelen aan Euronext Amsterdam.</p> <p><b>Retail Coördinator</b></p> <p>ING treedt op als retail coördinator met betrekking tot de Preferente Toewijzing aan Particuliere Beleggers.</p> <p><b>Stabilisatiemanager</b></p> <p>Goldman Sachs International treedt op als stabilisatiemanager (de “<b>Stabilisatiemanager</b>”) met betrekking tot de Aandelen aan Euronext Amsterdam.</p>
<p><b>E.4</b></p>	<p>Materiële belangen bij de Aanbieding (waaronder begrepen tegenstrijdige belangen)</p>	<p>Bepaalde Underwriters en N.M. Rothschild &amp; Sons Limited (“<b>Rothschild</b>” of de “<b>Financieel Adviseur</b>”) en/of de met hen verbonden ondernemingen waren in het verleden betrokken bij en kunnen in de toekomst van tijd tot tijd betrokken worden bij, het verlenen van verschillende commerciële bankdiensten, investeringsbankdiensten en financieel advies of andere diensten in de normale uitoefening van hun bedrijfsvoering aan de Vennootschap en/of de Verkopende Aandeelhouder of aan hen verbonden ondernemingen. De Underwriters hebben</p>

		<p>gebruikelijke vergoedingen en commissies voor deze transacties en diensten ontvangen of zouden deze kunnen ontvangen.</p> <p>In het kader van de Aanbieding kan elke Underwriter en elke van de respectievelijk aan hen gelieerde ondernemingen, voor eigen rekening handelend als belegger, Aangeboden Aandelen in de Aanbieding kopen en zulke effecten en Aangeboden Aandelen of verwante beleggingen in deze hoedanigheid voor eigen rekening houden, kopen of verkopen en kunnen zij deze Aangeboden Aandelen of andere beleggingen, anders dan in verband met de Aanbieding, aanbieden of verkopen. Derhalve moeten verwijzingen in dit Prospectus naar een aanbieding of plaatsing van Aangeboden Aandelen tevens worden gelezen als verwijzingen naar een aanbieding of plaatsing van Aangeboden Aandelen aan een van de Underwriters of een van de aan hen gelieerde ondernemingen, handelend in die hoedanigheid. De Underwriters zullen de omvang van dergelijke beleggingen of transacties alleen bekendmaken als zij daartoe op grond van wet- of regelgeving verplicht zijn. Daarnaast kunnen bepaalde Underwriters of de aan hen gelieerde ondernemingen financiële afspraken (waaronder begrepen swaps) maken met beleggers in verband waarmee zulke Underwriters (of de aan hen gelieerde ondernemingen) van tijd tot tijd Aangeboden Aandelen kunnen kopen, houden of verkopen.</p> <p>Het handelen in de hoedanigheid zoals hiervoor omschreven, kan betekenen dat de belangen van de Underwriters niet gelijk zijn aan of zelfs strijdig zijn met die van beleggers en de Vennootschap.</p>
<b>E.5</b>	<p>Persoon of entiteit die de Aangeboden Aandelen aanbiedt en lock-up-afspraken</p>	<p>De Joint Global Coordinators zijn gerechtigd om, geheel naar eigen inzicht en op elk moment, afstand te doen van de hierna beschreven beperkingen, waaronder die op de verkoop, uitgifte en overdracht van Gewone Aandelen.</p> <p>Conform de Underwriting Overeenkomst, wordt verwacht dat de Vennootschap en de Verkopende Aandeelhouder met de Underwriters overeenkomen dat zij, tot 180 dagen na de Afwikkelingsdatum (de lock-up-periode), niet, behoudens voor zover hierna anders bepaald, zonder de voorafgaande schriftelijke toestemming van de Joint Global Coordinators: (i) Gewone Aandelen of effecten converteerbaar in, uit te oefenen of inwisselbaar voor Gewone Aandelen of andere aandelen in de Vennootschap rechtstreeks of indirect, zullen uitgeven, aanbieden, verpanden, verkopen, aannemen om te verkopen, een optie daarop zullen verkopen of verlenen, een recht daarop zullen verlenen, een garantie of overeenkomst tot de aankoop ervan zullen overeenkomen, een optie zullen uitoefenen om deze te verkopen, enige optie of overeenkomst tot verkoop zullen sluiten, of zullen lenen of op andere wijze zullen overdragen of afstoten; (ii) swaps of andere overeenkomsten of transacties zullen aangaan die in het geheel of ten dele, rechtstreeks of indirect het economisch eigendom van Gewone Aandelen overdraagt, ongeacht of een dergelijke transactie moet worden afgewikkeld door de levering van Gewone Aandelen of dergelijke andere effecten, in contanten of op andere wijze.</p> <p>Het wordt verwacht dat de leden van de Raad van Bestuur met de Underwriters overeenkomen dat zij, tot 360 dagen na de</p>

		<p>Afwikkelingsdatum (de lock-up-periode), niet, behoudens voor zover hierna anders bepaald, zonder de voorafgaande schriftelijke toestemming van de Joint Global Coordinators: (i) Gewone Aandelen die zij hebben gekocht in de Aanbieding zoals beschreven in dit Prospectus of effecten converteerbaar in, uit te oefenen of inwisselbaar voor deze Gewone Aandelen of andere aandelen in de Vennootschap rechtstreeks of indirect, zullen uitgeven, aanbieden, verpanden, verkopen, aannemen om te verkopen, een optie daarop zullen verkopen of verlenen, een recht daarop zullen verlenen, een garantie of overeenkomst tot de aankoop ervan zullen overeenkomen, een optie zullen uitoefenen om deze te verkopen, enige optie of overeenkomst tot verkoop zullen sluiten, of zullen lenen of op andere wijze zullen overdragen of afstoten; (ii) swaps of andere overeenkomsten of transacties zullen aangaan die in het geheel of ten dele, rechtstreeks of indirect het economisch eigendom van deze Gewone Aandelen overdraagt, ongeacht of een dergelijke transactie moet worden afgewikkeld door de levering van deze Gewone Aandelen of dergelijke andere effecten, in contanten of op andere wijze.</p> <p>Bovenstaande beperkingen zijn niet van toepassing op: (i) het accepteren van een algemene aanbieding aan alle houders van de uitgegeven en toegewezen Gewone Aandelen van de Vennootschap op voorwaarden waarin al deze houders hetzelfde worden behandeld en die in alle opzichten onvoorwaardelijk van toepassing zijn geworden of verklaard of waarvan het bestuur van de Vennootschap acceptatie heeft aanbevolen; en (ii) het toekennen van beloningen in opties of Gewone Aandelen door de Vennootschap of de uitgifte van Gewone Aandelen in het geval van uitoefening van door de Verkopende Aandeelhouder of de Vennootschap aan werknemers op basis van aandelenparticipatieplannen toegekende opties die zijn bekendgemaakt of als voorstel of voornemen staan beschreven in dit Prospectus en overige aanbiedingsdocumenten.</p>
<b>E.6</b>	Verwatering	Niet van toepassing. De Aanbieding heeft geen verwaterend effect aangezien uitsluitend bestaande Aandelen worden aangeboden.
<b>E.7</b>	Geraamde kosten die de Vennootschap of de Verkopende Aandeelhouders aan de beleggers in rekening brengen	Niet van toepassing. De Vennootschap en de Verkopende Aandeelhouder brengen de beleggers geen kosten in rekening in verband met de Aanbieding.

## RISK FACTORS

*Before investing in the Ordinary Shares, prospective investors should carefully consider the risks and uncertainties described below, together with the other information contained or incorporated by reference in this Prospectus. The occurrence of any of the events or circumstances described in these risk factors, individually or together with other circumstances, may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group (as defined below). In that event, the value of the Ordinary Shares could decline and investors may lose part or all of their investment.*

*All of these risk factors and events relate to contingencies or describe effects which may or may not occur or may occur in form different from that described below. The Group may face a number of these risks described below simultaneously and one or more risks described below may be interdependent. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, or of the potential significance of the risks or of the scope of any potential harm to the business, results of operations, financial condition and prospects of the Group.*

*The risk factors are based on assumptions that could turn out to be incorrect. Furthermore, although the Group believes that the risks and uncertainties described below are the material risks and uncertainties concerning the Group's business and the Ordinary Shares, they are not the only risks and uncertainties relating to the Group and the Ordinary Shares. Other risks, facts or circumstances not presently known to the Group, or that the Group currently deem to be immaterial could, individually or cumulatively, prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. The value of the Ordinary Shares could decline as a result of the occurrence of any such risks, facts or circumstances or as a result of the events or circumstances described in these risk factors, and investors may lose part or all of their investment.*

*Prospective investors should read and carefully review the entire Prospectus and should reach their own views before making an investment decision with respect to any Ordinary Shares. Furthermore, before making an investment decision with respect to any Ordinary Shares, prospective investors should consult their own stockbroker, bank manager, lawyer, auditor or other financial, legal and tax advisers and carefully review the risks associated with an investment in the Ordinary Shares and consider such an investment decision in light of their personal circumstances.*

### **Risks Relating to the Group's Industry, Business and Operations**

#### ***1. As the Group's business is global and cyclical, it is exposed to adverse economic and political developments in countries and industries across the world.***

The Company together with its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code ("DCC") (each a "**Group Company**", and together with the Company, the "**Group**") is active in a global business. The Group's business environment is influenced by both political and economic conditions in the individual domestic markets in which the Group operates as well as general global economic and political developments.

The Group experienced the impact of adverse macro-economic developments in various geographies during 2015, in particular in China where economic growth was at the lowest level in the last 25 years. Also, the economic growth of countries highly dependent on revenues from energy, raw materials and commodities has been adversely affected by the slowdown of growth in China, most strongly in emerging market countries such as Brazil, Chile and Colombia. These trends have continued in 2016. In Europe, monetary interventions by the European Central Bank have neither resulted in an increase of inflation nor in stronger economic growth, and economic growth and the business environment in the European Union ("**EU**") may be adversely affected by other economic and political developments including, among other things, uncertainty arising from the planned referendum in the United Kingdom on continued membership in the EU and the effects of regional political conflicts in the Middle East, Russia and Ukraine and other areas. The disparate macro-economic outlook for the main geographies, political and military conflicts and the unknown impact of U.S. and Eurozone monetary policies continues to provide uncertainty with respect to consumer and business confidence, the levels of capital expenditures in general and unemployment levels, which could adversely affect demand for products and services offered by the Group. Economic and political uncertainty may make it more difficult for the Group to budget and forecast accurately. The Group may encounter difficulty in planning and managing operations due to unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, increased regulation, import tariffs, nationalization of assets or restrictions on the repatriation of returns from foreign investments. Given that growth geographies are becoming increasingly important in the Group's operations, the above-mentioned risks are expected to grow.



In addition, demand for the Group's products has historically been partly cyclical, with a significant portion of the Group's business exposed to changes in construction activity, consumer spending and the general economic environment. This applies in particular to the Group's professional luminaires, home systems and LED electronics businesses. The Group's products are sold in various applications of the general lighting market such as residential, road and street, architectural, office, industrial, retail and hospitality lighting. The fact that various products of the Group have different cycles to some extent mitigates but does not eliminate the negative effect of an economic downturn. Furthermore, as the Group's main markets are in Europe, the United States, Asia (including the Middle East and Turkey) and Latin America, economic developments in these regions have and are expected to continue to have the highest impact on the Group's business activities. For example, in light of the intensified geopolitical situation in the Middle East and depressed oil prices, the Group wrote down customer receivables related to long-term overdue balances in Saudi Arabia in the three month period ended 31 March 2016. As the economic environment in Saudi Arabia remains difficult, the Group continues to evaluate the status of customer receivables and may in the future make further write-downs.

The continuation or occurrence of one or more of the above-mentioned adverse developments may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**2. *The lighting industry is in a technological transition from conventional lighting technologies to LED lighting technologies and the Group may not be successful in addressing this transition.***

The Group's business is primarily focused on the sale of lamps, luminaires, lighting systems and lighting services in the general lighting market. A significant but decreasing portion of the Group's sales are derived from conventional lighting technologies (*i.e.*, 57% of the Group's sales in 2015 compared to 74% in 2013), while a significant and increasing portion of the Group's sales are derived from light emitting diode ("**LED**") technologies (*i.e.*, 43% of the Group's sales in 2015 compared to 26% in 2013). Conventional lighting technologies and LED lighting technologies have fundamentally different characteristics. For example, conventional lamps, such as incandescent lamps, are generally energy intensive and need to be replaced more frequently than LED lamps as they have a relatively short life expectancy. By contrast, LED lamps are energy efficient, have a longer life expectancy, generate less heat, provide a greater range of colors, are more easily controlled (including remotely) and can be digitally connected. LED lamps are increasingly replacing conventional lamps such as incandescent and fluorescent lamps. In addition, government authorities and consumers around the world are committed to reducing energy consumption and government measures have been taken to support energy-saving lighting technology. LED lighting technologies are currently four to five times more energy-efficient than some conventional lighting technologies, such as incandescent lamps and halogen lamps, and are expected to become even more efficient.<sup>3</sup> Many countries have imposed—or are in the process of imposing—a phase out on energy inefficient lamps in favor of energy efficient lamps. These trends are expected to promote increased penetration of LED lighting technologies.

As a result of the foregoing, the transition of the general lighting market in which the Group operates from products based on conventional lighting technologies to products, systems and services based on LED lighting technologies will have a fundamental effect on the Group. The Group believes that the percentage of its sales provided by products, systems and services based on LED lighting technologies will continue to increase over the next years. If the Group fails to adapt its business to adequately address the fundamental transition from conventional lighting technologies to LED lighting technologies, this may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. The Group's business is expected to face certain specific risks in relation to this transition, as further explained in the following risk factors mentioned below "*There can be no assurance that the Group's strategy to address the transition from conventional lighting technologies to LED lighting technologies whilst optimizing cash generation from the conventional lamps business will be successful*", "*A significant part of the Group's existing operational manufacturing plants has or will become obsolete due to the transition from conventional lighting technologies to LED lighting technologies, which has resulted in and is expected to continue to result in significant costs to the Group*" and "*Rapid technological change and the transition from conventional lighting technologies to LED lighting technologies may be disruptive and require other adjustments to the Group's business model, including to the Group's sales and marketing, R&D, supply chain management and procurement processes*".

**3. *There can be no assurance that the Group's strategy to address the transition from conventional lighting technologies to LED lighting technologies whilst optimizing cash generation from the conventional lamps business will be successful.***

The Group's conventional lamps business has historically been the greatest contributor to the Group's cash generation. During the transition from conventional lighting technologies to LED lighting technologies, the Group aims to leverage its conventional lamps business and to carry on managing this business for cash optimization by continuing to pro-actively manage costs through reductions in its manufacturing footprint. The

<sup>3</sup> Source: Boston Consultancy Group ("**BCG**"), How to Win in a Transforming Lighting Industry, 2015 ("**BCG Report**").



Group is exposed to the risks that its strategy of optimizing cash generation from the conventional lamps business may not be successfully implemented or continued and that the Group will not fully realize the expected benefits of its strategy.

The Group's strategy is also based on various assumptions regarding the expected speed of the transition to LED lighting technologies, and a recent market study predicts that the percentage of worldwide lamp revenues from LED lamps will increase from 24% in 2014 to 64% in 2020.<sup>4</sup> Factors that may influence the extent and speed of the transition from conventional lighting technologies to LED lighting technologies include:

- the further development of the regulatory framework, including government support measures in favor of energy-saving lighting technology, phase out of certain inefficient lamps and bans on certain hazardous materials;
- developments in market prices and products costs for LED products, particularly as a result of research and development (“R&D”) activities by market participants;
- developments in energy prices;
- acceptance of LED lighting technologies in the consumer segment and by the Group's customers generally, in particular further education on the weighing of comparably high acquisition costs against durability and energy savings and the perceived quality of other LED lighting products;
- development of other alternatives to LED lighting technologies, such as more energy efficient conventional lighting technologies or new lighting technologies; and
- developments in individual end markets, such as the construction industry, and consumer spending.

The Group has established certain medium and long term objectives to serve as measures of its operational and managerial performance, as further explained in “Business—Outlook”. The Group's ability to achieve these financial objectives is subject to significant business, economic and competitive uncertainties and contingencies, including with respect to the speed and extent of the transition from conventional lighting technologies to LED lighting technologies.

However, it is difficult to predict the extent and speed of the transition from conventional lighting technologies to LED lighting technologies. As a result, the transition may be faster or slower than currently anticipated and the market may develop differently than anticipated by the Group. The Group expects that its market share in LED lamps will be smaller than its current market share in conventional lamps. The longer the transition from conventional lighting technologies to LED lighting technologies persists, the longer there will be an overlap of the product lifecycles of the Group's conventional lamps business with those products, systems and services based on LED lighting technologies. The shorter such transition period, the less cash can be generated from the Group's conventional lamps business. Growth in market share in products, systems and services based on LED lighting technologies at a faster rate than expected by the Group may require the Group to intensify and accelerate its efforts and investments relating to the transition and the Group may not be as successful as other industry participants in doing so, including in the area of technological innovation, which is a key element of the strategy.

As a result, the Group is exposed to the risk that its assumptions underlying its strategy (including the timing of the transition from conventional lighting technologies to LED lighting technologies and cash flow generation from the conventional lamps business) may not be accurate and that its actual results differ materially from the financial objectives set by the Group. There is no guarantee that the Group's strategy will be successfully implemented or continued, or will be effective in addressing the transition from conventional lighting technologies to LED lighting technologies, any failure of which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

***4. A significant portion of the Group's existing operational manufacturing plants has or will become obsolete due to the transition from conventional lighting technologies to LED lighting technologies, which has resulted in and is expected to continue to result in significant costs to the Group.***

A significant portion of the Group's operational manufacturing plants is used to produce conventional lamps. The production process for conventional lamps is significantly different from the production processes required for LED lamps. Due to the transition from conventional lighting technologies to LED lighting technologies, over time, the Group expects to use less of its existing operational manufacturing plants and most of the Group's conventional lamp plants will become obsolete. In response, the Group has focused on right-sizing its conventional lamp production in line with market demand, as well as moving production to more efficient manufacturing plants to maintain scale and cost efficiency. The Group may close affected manufacturing plants or transform such manufacturing plants to produce LED lighting technologies, which is possible for a limited number of manufacturing plants only. The Group has reduced the number of its operational manufacturing plants for conventional lamps from 45 in 2008 to 21 by year-end 2015 (out of a total number of 60

<sup>4</sup> Source: BCG Report.

operational manufacturing plants of the Group) and expects to close further operational manufacturing plants in the future. As a result, the Group currently expects that it will incur significant additional costs in connection with future closure or restructuring of remaining manufacturing plants. The timing of such costs will depend upon various circumstances, in particular the speed and extent of the transition to LED lighting technologies. The Group's restructuring costs, which are primarily related to the restructuring, closing down or sale of conventional lamp manufacturing plants, were €18 million and €28 million in the three months ended 31 March 2016 and 2015, respectively, and €90 million, €261 million and €79 million for the years ended 31 December 2015, 2014 and 2013, respectively.

The restructuring, closing down and sale of conventional lamp manufacturing plants over the next few years will likely result in additional net restructuring costs, including depreciation and impairments relating to operational manufacturing plants, costs of removal, potential restructuring costs, environmental remediation, costs for the transfer or dismissal of employees and other costs, and which, if occurring sooner than currently anticipated by the Group, may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. See "Business—Outlook" and "Operational and Financial Review—Material Factors Affecting Results of Operations—Restructuring costs" for more information.

**5. *Rapid technological change and the transition from conventional lighting technologies to LED lighting technologies may be disruptive and require other adjustments to the Group's business model, including to the Group's sales and marketing, R&D, supply chain management and procurement processes.***

Rapid technological change and the transition from conventional lighting technologies to LED lighting technologies has had, and is expected to continue to have, significant effects on the Group's business model. In particular, the longer life expectancy of LED lamps as compared to conventional lamps is expected to lead to lower replacement demand for lamps in the future. As a result, replacements will be less driven by technical lifespan, but by refurbishment cycles (in which luminaires may be replaced together with the light source), which differ by customer segment. The Group is transforming from a traditional manufacturing company predominantly focused on conventional lighting products towards an "asset-light" manufacturer and service provider focused on products, systems (including connected lighting systems) and services based on LED lighting technology. This change requires a corresponding shift in the Group's business model. These business model adjustments have required, and are expected to continue to require, among other areas, changes to the Group's sales and marketing, R&D, supply chain management and procurement processes, for the following reasons:

- Due to the characteristics of LED lighting technology that facilitates lighting control systems, the market for these systems and related services are expected to become a more important part of the general lighting market and the Group's product portfolio. As a result, the Group will need to adapt and educate its sales force to develop the necessary technical know-how and expertise that is required to meet this shift in demand, in particular with respect to the Group's projects business where systems and related services are increasingly sold directly to end users.
- Despite the longer anticipated life expectancy of LED lamps as compared to conventional lighting products, the actual product lifecycle of products, systems and services based on LED lighting technologies is generally much shorter compared to those based on conventional lighting technologies. These shorter lifecycles can be explained by the high speed of the technological developments with respect to LED lighting product features, improvements in cost efficiencies and shorter refurbishment trends for products, systems and services based on LED lighting technologies. This requires the Group to adapt its R&D profile to build further capacity in systems and services, which in turn may require higher up-front R&D expenditures. As a result, the Group will need to adjust and make further investments in its overall business processes, R&D and information technology ("IT") systems which enable and support development of products, systems and services based on LED lighting technologies.
- In the past, the Group's production processes were primarily organized to produce conventional lighting products on a large scale. Because LED lighting technologies have been subject to rapid technological change and significant price erosion, supply and demand for LED lighting technologies are more difficult to predict. These factors will require the Group to manage its external suppliers and production levels more closely in order to align supply and production levels with actual market demand in order to avoid excessive or obsolete inventory and associated costs. As a result, the Group will need to improve its flexibility in changing production levels and adjust its supply chain management accordingly.
- The supply chain for conventional lamps is largely integrated and predominantly based on in-house production, while almost all of the Group's LED lamp production is outsourced, except for a relatively small proportion that is kept in-house for strategic reasons to reduce lead times and to take advantage of the Group's conventional lamps infrastructure to manufacture glass LED bulbs. As a result, the Group is exposed to certain risks as further explained in—"The Group's manufacturing and supply operations are

*shifting from an in-house production model to an “asset-light” outsourcing model, which makes the Group increasingly dependent on external suppliers and effective supply chain management” below and will need to adjust its procurement processes to address increasing levels of purchases from suppliers.*

If the Group is unable to adjust its business processes, including sales and marketing, R&D, supply chain management and procurement processes, to effectively address the transition from products based on conventional lighting technologies to products, systems and services based on LED lighting technologies, this may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**6. *The Group may not be successful in offsetting the significant price erosion which characterizes the market for LED lamps, with higher volumes, productivity improvements, product innovations and cost control.***

The market for LED lamps has historically been subject to significant price erosion, and is expected to remain subject to price erosion in the future. For example, a recent market study predicts that the average price of an LED lamp (bulbs and spots) will drop at least 50% from more than €4.52 in 2014 to less than €2.26 in 2020.<sup>5</sup> The Group believes that the average price of an LED lamp declined by 20-25% per annum in 2013 and 2014. However, such price erosion may occur more quickly in the future than anticipated by the Group, or may not be fully offset by higher volumes, productivity improvements, product innovations and cost reductions. Conventional lamps have historically been subject to marginal price erosion. However, because the Group’s strategy is to optimize cash generation from its conventional lamp business, aggressive pricing practices by the Group’s competitors in conventional lamps may have a significant negative impact on the Group’s cash flow generation. While the Group has implemented cost saving and efficiency improvement measures in the past, including in respect of costs of materials procured from third party suppliers, there is no guarantee that the Group’s cost saving and efficiency improvement measures will continue to be successful or result in the anticipated savings, as further explained in “*Cost savings initiatives needed to maintain and improve profitability margins and cash generation may not be successful*” below. Furthermore, any restructuring measures may have a material adverse effect on the Group’s results of operations and cash flow as the costs of reorganization are incurred before the potential benefits are realized. Any of the foregoing factors may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**7. *The general lighting market in which the Group operates is highly competitive as it includes other traditional global lighting manufacturers as well as new entrants to the LED lighting market. Moreover, the competitive landscape may change due to increasing vertical integration.***

The general lighting market in which the Group operates is highly competitive as it, among other reasons, includes other traditional global lighting manufacturers as well as new entrants to the LED lighting market. The competitive landscape of the general lighting market in which the Group operates varies along the value chain, which consists of LED components, conventional and LED lamps, conventional and LED electronics, and conventional and LED luminaires, which are complemented by the lighting systems and lighting services segments. The Group is active in each segment of the value chain other than LED components. The main competitive factors include market leadership, scale, sales channels access, technology leadership, innovation strength, extensive patent portfolio, reliability, brand image, product range, performance, energy efficiency, price, delivery speed, quality and design.

The increasing penetration of LED lighting products has resulted in product lifecycles becoming shorter, has emphasized the need for continuous innovation and, as new technologies evolve, has provided entry points for new competitors and opportunities for rapid market share shifts. The growth in the market for LED lighting technologies has encouraged new competitors (particularly from Asia) to enter the market for LED lighting products. The Group believes the current competitive landscape in each segment of the general lighting market in which it operates is as follows:

- *Conventional lamps and electronics:* The conventional lamps and electronics market is comparatively concentrated. The Group believes that the Group, Osram and GE are the top three global market participants measured by sales.
- *LED lamps and electronics:* The LED lamps market is dynamic and more fragmented than the conventional lamps and electronics market with strong competition from low cost Asian competitors. The Group believes that next to Osram, other competitors active in LED lamps include Panasonic, Toshiba, GE, Cree and TCP. Europe and the United States are relatively more concentrated, while the market in China is relatively fragmented. The largest companies active in the LED electronics market include the Group, Tridonic (part of Zumtobel) and Osram.

<sup>5</sup> Source: BCG Report. The BCG projections are in USD and assume a constant 2014 exchange rate of € 1.00 = USD 1.3269 through 2020.

- *Professional luminaires, systems and services*: The professional luminaires, systems and services market differs significantly by geography with many regionally focused competitors. The Group perceives the professional luminaires and systems markets in North America and Europe as relatively concentrated. In North America, the Group believes that its key competitors are Acuity Brands, Cooper Industries and Hubbell. In Europe, the Group believes its main competitors are Zumtobel, Fagerhult and Schröder. In India, the Group believes its main competitors are Crompton, Bajaj and Havells. The professional market in China and Growth Markets<sup>6</sup> (excluding Japan) are highly fragmented. In China, the Group believes its main competitors are NVC and Ocean King; in Growth Markets, the Group considers Panasonic and Toshiba as its main competitors.
- *Consumer luminaires*: The consumer luminaires market is highly localized and fragmented with few global or regional competitors, except for companies with own distribution including Ikea Private Label and Home Depot Private Label.
- *Home systems*: The home systems markets is still in its early stages.

As a result, some of the Group's competitors are large, sophisticated and well-capitalized companies with significant resources, while the Group also faces competition from new entrants such as start-ups and other companies that target only a certain product (range) or limited geographic area. Start-ups can sometimes operate as a small organization or in low cost environments that allow them to keep prices low and spend aggressively on product development, marketing, sales and other product initiatives, for example in the LED lamps market with its lower entry barriers. The transition in the general lighting market from conventional lighting technologies to LED lighting technologies has also resulted in competitors that had previously been active in specialized markets entering into the general lighting market, and increased levels of competition in the market segments in which the Group operates. Moreover, some of the Group's competitors may in the future benefit from government support measures, increasing import tariffs or local content or manufacturing requirements in government tenders, all of which would seek to support local companies but may not be available to the Group or available only to a lesser extent. Alternatively, governments may decide to purchase and on-sell subsidized LED lamps to encourage the adoption of energy efficient lighting, which may accelerate price erosion of LED lamps and may disrupt the Group's established global distribution network. Further, the transition to LED lighting technologies may result in large, well-known technology and software companies entering the lighting market, particularly with respect to connected systems and services, as they seek to expand applications for their existing software and control systems and applications.

The competitive landscape in which the Group operates is also subject to change as a result of consolidation along the value chain towards integrated lighting providers. The Group's competitive position may be significantly affected by this vertical integration trend, for example as a result of traditional luminaire manufacturers moving into developing lighting systems and services or LED lamp manufacturers producing LED electronics in house. Integration in one or the other direction might enhance the product offering of the Group's competitors, market share and competitive position, or turn customers or business partners into competitors, who may be lost as customers and could in turn extend their business activities into market segments in which the Group operates.

To the extent the Group is unable to successfully address competition in some or all of its market segments, sales of the Group's products will be negatively impacted, which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**8. *The ability of the Group to compete effectively depends upon its ability to distinguish the Group and its products, systems and services from those of its competitors.***

The Group's ability to compete effectively in the Group's markets depends in large part upon its ability to distinguish the Group and its products, systems and services from those of its competitors, including with respect to:

- breadth and quality of product offering;
- product pricing and cost competitiveness;
- supporting the customer's product search and strong customer relationships;
- quality and breadth of intellectual property;
- brand quality and recognition;

<sup>6</sup> Growth Markets consists of six markets covering the following regional clusters: (i) ASEAN plus other Pacific (comprising ten countries, primarily Indonesia, Thailand and Australia); (ii) the Indian Subcontinent (India, Bangladesh and Sri Lanka); (iii) Middle East and Turkey; (iv) Africa (primarily South Africa, Morocco and Egypt); (v) Russia, Ukraine and Central Asia; and (vi) Japan.



- energy efficiency of products; and
- the success and timing of new product development and the speed of delivery of new products.

The Group carries a wide and diverse range of products allowing the Group to compete in most segments of the lighting market, and it could suffer significantly if competitors target the Group's higher margin or major revenue generating products. For instance, higher margin products or major revenue generating products benefitting from the Philips brand may suffer if other premium brands are offered at significantly lower prices. In addition, as a result of product differentiation in new markets, the Group may not be able to benefit from economies of scale in the same way as it used to with respect to its conventional lamps business.

As competition becomes more diverse and with new competitors entering the lighting market, competition may intensify. To the extent the Group is unable to distinguish its products, systems and services, its competitors may be able to capture the Group's customers and reduce the Group's opportunities for success, which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**9. *The Group has spent considerable resources to develop its offering of lighting systems (including connected lighting systems) and lighting services. There can be no assurance that the Group's strategy with respect to lighting systems and lighting services will be successfully implemented, or that the Group will fully realize the expected benefits of its strategy.***

The general lighting market is evidencing fast adoption of lighting systems and services based on LED lighting technologies, including as a result of a greater focus on the total cost of ownership by customers. In addition to the general shift in the Group's business towards LED lighting technologies, the Group has spent considerable resources on developing its offering of lighting systems (including connected lighting systems that allow dynamic lighting control through connectivity with sensors, the cloud and networks) and lighting services based on LED lighting technologies. Moving from sales of products to sales of systems and services requires, among other things, that the Group extends its go-to-market approach from distributing via trade/value added partners to directly engaging with end-users and developing different capabilities and competences along the value chain (including with respect to IT capabilities, data and product security, technical knowledge or support to sales force and project management skills). The Group may not currently have access to all of the required capabilities and competences in-house and may therefore need to develop these internally or via partnerships or acquisitions in the future. The Group may also need to spend additional resources to further develop expertise in connected lighting systems as these systems are expected to become an increasingly important component of the general lighting market in the future. The percentage of all luminaires (measured in revenues) that are sold as part of a connected lighting system is expected to grow from 5% in 2014 to 25% in 2020,<sup>7</sup> and the Group intends to focus on such connected lighting systems as part of its strategy to address the transition from conventional lighting technologies to LED lighting technologies. However, there can be no assurance that the Group's strategy to develop its offering of lighting systems (including connected lighting systems) and lighting services will be successfully implemented, that the benefits of the strategy will outweigh the costs to the Group, that the Group's strategy will address the trends in the general lighting market, or that the shift towards lighting systems and lighting services will develop as anticipated, any of which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**10. *Cost savings initiatives needed to maintain and improve profitability margins and cash generation may not be successful.***

Historically, the Group has sought through its cost savings initiatives to maintain and improve its profitability margins and cash generation. Historic cost savings have focused on three areas: (i) footprint rationalization, (ii) bill-of-material costs, and (iii) productivity and efficiency improvements. Footprint rationalization involves pro-active management by the Group of its manufacturing footprint, including through relocation of manufacturing activities to more efficient manufacturing locations close to relevant markets and closing or divesting operational manufacturing plants where needed. The Group has reduced the number of its operational manufacturing plants for conventional lamps from 45 in 2008 to 21 in 2015 and expects to close more operational manufacturing plants in the future. In addition, the Group has focused on realizing bill-of-material savings from both product engineering and price negotiations leveraging its scale to reduce costs. Further, the Group has implemented several cost savings programs with regards to functional overhead and other operating expenses (e.g., the Accelerate! productivity program of the Selling Shareholder together with its subsidiaries within the meaning of Section 2:24b DCC ("**Royal Philips**") that started in 2011), pursuant to which, for example, the Group has been able to reduce its aggregate selling expenses, R&D expenses and general and administrative expenses, in each case excluding restructuring costs, acquisition-related charges and other incidental charges, as a percentage of sales from 32.2% in 2013 to 31.0% in 2015. Given the expectation for

<sup>7</sup> Source: BCG Report.

continued declines in the market for conventional lighting technologies and continued competition in the market for LED lighting technologies, the Group expects that further cost savings will be required to maintain or improve profitability margins and cash generation. The Group's ability to implement cost saving initiatives, including by closing or consolidating operations, depends on a number of factors, many of which are outside of its control. In particular, most of the Group's operations and manufacturing plants are subject to collective bargaining agreements or involve the presence of work councils that may prevent or complicate the Group's efforts to sell or restructure its business. There is no assurance that the Group's cost savings initiatives will be successfully implemented, that the benefits of its cost savings initiatives will outweigh the costs, that the cost savings initiatives will be sufficient to address price erosion in the general lighting market, or that the Group's cost savings initiatives will maintain or improve profitability margins or cash generation, any of which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

***11. The Group's current and future business transformation programs are and may in the future be costly, may not be successfully implemented and may not improve the performance of the Group's business to the extent expected.***

The Group has previously implemented or is currently implementing certain business transformation programs intended to ensure sustainable performance by transforming processes, operations, organization or culture, particularly for certain parts of its professional luminaires business in North America, home business in Europe and overall in China. The Group's past and current business transformation programs have been or are costly, and the Group is exposed to potential charges in connection with its current and future business transformation programs, as well as the risk that such programs may not be successfully implemented or continued and may not improve the overall performance of the Group's business. The measures taken in connection with such business transformation programs may be significant, including reduction in production footprint, changes in the go-to-market approach, improvements in IT systems, reduction in number of local brands, portfolio pruning and headcount reductions, may result in significant costs to the Group and may have other adverse impacts on the business and operations of the Group.

For example, following the economic and financial crises which had a significant negative impact on the performance of its business group ("**Business Group**" or "**BG**") Professional in North America beginning in 2008, BG Professional in North America implemented from 2012 to 2014 a major business transformation program, which included the integration of individual businesses, footprint optimization, supply base consolidation, portfolio and brand rationalization, go-to-market approach implementation (including consolidation of the agent network as a key component), IT consolidation and productivity improvements, among other measures. This business transformation program was costly, and also resulted in disruption of ongoing operations that contributed to a further decline in performance of BG Professional in North America. There is no guarantee that the business transformation program in North America has fully addressed the performance issues of BG Professional in North America. In addition, BG Home undertook beginning in 2014 an extensive portfolio pruning exercise in its consumer luminaires business in Europe, seeking to optimize manufacturing fixed costs and rationalize its European warehouse footprint in order to improve profitability. This exercise contributed to a decline in the sales of BG Home. The Group's ability to continue to improve the performance of BG Home in Europe and of BG Professional in North America will be key to the Group's future development and results. The Group is also currently implementing business transformation programs to address the decline in the Group's sales in China since 2013, including by reducing the number of distributors, establishing clear regional and product or channel responsibilities for distributors, collaborating with key distributors to target end-users directly in order to reduce layers in the go-to-market model, increasing prices for certain products, offering customer financing for distributors through third party banks and driving online sales through relationships with large vendors. The Group's comparable sales in Greater China declined by 19.6% for the year ended 31 December 2015, and there is no guarantee that the Group's business transformation programs will be successful in reversing the decline in sales in Greater China.

While the Group implements any business transformation program, such as the programs mentioned above, with the objective of improving the long-term performance of the Group's business, such business transformation programs may adversely impact performance of the Group's business, and there can be no assurance that any business transformation program will achieve the anticipated results. The costs to implement business transformation programs, failure to successfully implement business transformation programs or failure to achieve the anticipated results of business transformation programs may have a material adverse effect on the business, results of operations and financial condition of the Group.

***12. The loss of important customers or a change in the terms of purchases by important customers may materially adversely affect the Group's business.***

The Group sells its products, systems and services to customers such as retailers (e.g., hypermarket chains and do-it-yourself ("**DIY**") stores), distributors (wholesalers) and end-user customers. While the Group's sales

do not depend materially on a single or small number of customers, some of its customers generate sales corresponding to a low single digit percentage of the Group's sales. The Group generally does not enter into long-term commitment contracts with its customers other than framework agreements with no firm purchase commitment. Important customers may alter their purchasing behavior and reduce or cancel orders or entirely cease to do business with the Group with little or no notice. The effect would be particularly severe if a number of important relationships were terminated or the number of products the Group delivers to such customers was substantially reduced within a short period of time. As a result, the Group must maintain its longstanding relationships with such customers to maintain levels of sales. Customers whose framework agreements expire may also request a reduction of prices or a change in terms of purchases before making further purchases from the Group. Agreeing to such requests may materially adversely affect the Group's sales and its results of operations and failure to reach an agreement may result in the loss of important customers. Any of the foregoing developments that is systematic or widespread among the Group's customers, especially where significant sales are involved, may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**13. *The Group's manufacturing and supply operations are shifting from an in-house production model to an "asset-light" outsourcing model, which makes the Group increasingly dependent on external suppliers and effective supply chain management.***

As part of the transition from conventional lighting technologies to LED lighting technologies, the Group's manufacturing and supply operations have shifted and continue to shift from an in-house production model for conventional products to an "asset-light" outsourcing model for LED products. As a result, the Group increasingly outsources the production of components and, with LED lamps, the production of entire finished products. This "asset-light" outsourcing model is expected to result in fewer or smaller operational manufacturing plants globally, and thereby reduces the capital intensity of the business. If this trend continues, as is expected, the Group will become highly dependent on third party assembly and manufacturing. Outsourcing the production of finished products and components presents a number of risks. The Group must cooperate with suppliers to, among other things, optimize time to market and maintain the quality standard of its products. Effective management of the external supply chain is crucial to preserve competitiveness in the markets in which the Group operates. Although the Group works, and intends to continue to work, closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to timely replace a supplier that is not able to meet its demand. From time to time, suppliers may extend lead times, limit the amounts supplied to the Group or increase prices due to capacity constraints or other factors. If the Group is unable to address the aforementioned risks, this may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**14. *The Group depends on external suppliers for certain raw materials and critical components, which may expose it to rising prices or shortages.***

The Group depends on external suppliers for certain raw materials (*e.g.*, rare earth metals, copper, phosphor, steel, aluminum, noble gases and oil-related products) and critical components. Market prices for raw materials are subject to significant volatility, such as the fluctuations experienced in the phosphor market in 2012. During periods of increasing costs of raw materials, the Group may not be able to compensate for cost increases through productivity improvements or passing cost increases on to customers. By contrast, in times of falling prices for raw materials, the Group may not fully benefit from such price decreases, for example, because the Group attempts to reduce the risk of rising raw material prices through long-term contracting. A general shortage of raw materials, including as a result of unforeseen natural disasters, may also result in increases in market prices and potential disruption to production. The Group's strategy to maximize cash generation from the conventional lamps market during the transition to LED lighting technologies exposes the Group to heightened supply risk as suppliers of certain critical components for the conventional lamp products exit the market, including by focusing on supplying critical components for LED lighting products. As a result, the supply of critical components for conventional lighting products and services has been reduced to some extent. The Group expects this trend to continue. The Group may in the future not be able to source certain critical components for its conventional lighting products at all or in a timely manner because suppliers on which the Group currently relies may exit this market as it further declines. Any failure by the Group to effectively address rising prices or shortages of raw materials or critical components may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**15. *The Group relies on the manufacturing of its LED lamps in Asia for its worldwide distribution and could suffer as a result of long lead times.***

The Group's LED lamps are primarily manufactured by third parties in Asia, which requires shipping the LED lamps from Asia to the Group's main markets in the United States and Europe. As a result, the lead times



for delivery of such products to its main markets can be significant. Increased demand from customers and longer than expected delivery times could result in LED lamps going out of stock. In addition, the Group is exposed to an increased risk that its stock of manufactured LED lamps become obsolete, as compared to competitors that manufacture locally. In particular, changes in customer demand and preferences or new technological developments between the time production cycles are planned and the time that products arrive in the relevant market's distribution centers, requires more effective production cycle and supply chain management by the Group. Any of the foregoing risks may have an adverse effect on the Group's reputation, resulting in retailers allocating less, or less prominent, shelf space to the Group's LED lamps, which may in turn have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**16. *In difficult market conditions, the Group's high fixed costs combined with low revenues may negatively impact its results.***

The production of conventional lighting products is characterized by high fixed costs. Notwithstanding the Group's shift from an in-house production model to an "asset-light" outsourcing model, a significant portion of the Group's production and assembly requirements are met by its own operational manufacturing plants. In difficult market conditions, the Group may be faced with a decline in the utilization rates of its operational manufacturing plants due to decreases in product demand. During such periods, the Group's operational manufacturing plants may not operate at full capacity, resulting in higher average costs per product. The Group cannot guarantee that difficult market conditions in the future will not adversely affect its utilization rates at its operational manufacturing plants, and consequently the Group's future gross margins, which may have a material adverse impact on the business, results of operations, financial condition and prospects of the Group.

**17. *The Group may suffer losses related to winning, executing and managing complex lighting projects.***

One of the Group's business strategies is to participate in, and win, competitive bid selection processes for lighting projects (e.g., luminaires and connected lighting systems for cities, office buildings or retailers). Although the number of these projects is limited compared to the overall sales of the Group, they are projected to grow—potentially significantly—in the future. The selection processes for these projects can be lengthy and require the Group to incur significant design, development and selling expenditures, with no guarantee of winning a contract or generating revenue. Failure to win a sufficient number of these bids may result in reduced revenues and hurt the Group's business.

If the Group is selected for complex lighting projects, it may suffer losses due to various circumstances, including contractually agreed penalties or reputational damage if it cannot complete the work in accordance with the time limits specified in the project contract or as a result of more extensive maintenance and service obligations than anticipated at the time of the Group's bid. Risks associated with these types of complex projects for the Group include:

- delays in awards of major contracts or postponement of previously awarded contracts, which may result in higher inventory and higher inventory write-downs;
- key assumptions made by the Group in its bid (such as life expectancy of LED lighting products, expected energy savings, service levels required or replacement rates) that may prove incorrect over time;
- failure to satisfy projected energy savings, in particular where the Group's revenues for the project are linked to such energy savings;
- project modifications that may lead to unexpected and unrecoverable cost increases;
- performance defaults by suppliers, subcontractors or consortium partners for which the Group may be (held) responsible;
- deterioration of the financial condition of customers, which risk is exacerbated by the relatively long duration of projects;
- if actual results and cash flows deviate from initial assumptions underlying a project, its financing structure may be inadequate or inefficient;
- the accounting analysis of projects is complex and may change during the lengthy contract period, which may lead to an accounting treatment that differs from the treatment anticipated at the inception of the project;
- failure or inability to adequately manage or supervise complex projects and project participants involved which may result in delays, cost overruns and post-completion problems; and
- unanticipated technical problems which may require the Group or its suppliers to spend additional time and money to address these challenges.

Any of the foregoing risks may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**18. *The Group owns less than 100% of the shares in certain of its companies and participates in joint ventures or associated companies in which the ownership structure carries risks.***

In addition to its wholly-owned subsidiaries, the Group holds majority participating interests in certain companies and in certain cases participates in certain joint ventures or associated companies, primarily to gain market access (e.g., the Group's acquisition of its 51% interest in General Lighting Company ("GLC") to gain access to the lighting market in the Kingdom of Saudi Arabia in 2014), to ensure supply relationships or as part of a consolidation process in certain fragmented regional markets where the Group is active. The Group may make further acquisitions or investments following which it will hold less than 100% of the relevant entity. Owning less than 100% of an entity carries certain risks, including:

- conflicts between the policies or objectives adopted by the Group's partners and those adopted by the Group or non-compliance by such partner with the policies or objectives adopted by the Group, particularly regarding insurance coverage and sanctions compliance;
- disagreement with the Group's partners over the performance of their obligations;
- disputes as to the scope of each party's responsibilities;
- financial difficulties encountered by the Group's partners affecting their ability to perform their obligations;
- legal or contractual responsibilities with respect to the Group's other partners or their interest in the relevant entity;
- change of control or deadlock provisions in governance arrangements that may require the Group to take certain actions; and
- financial or other obligations of joint ventures, which may be (partially) guaranteed by the Group in certain locations.

These and other risks may result in a deadlock situation and an inability to distribute profits or make further necessary investments. Rights of minority shareholders may negatively affect the Company's ability to control certain subsidiaries. If such conflicts or problems arise with respect to non-wholly owned companies and operations, this may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

Further, the Group has invested and may further invest in joint ventures or associated companies in which the Group will have a non-controlling interest for growing new and other business in R&D, production, marketing and other areas. Some of these joint ventures or associated companies may represent significant investments. In these cases, the Group may have limited influence over, and limited or no control of, the governance, performance and cost of operations of joint ventures or associated companies. The joint ventures and associated companies that the Group may not control may make business, financial or investment decisions contrary to the Group's interests or decisions different from those that the Group itself would have made. If the Group faces any disagreement with its relevant partner in a joint venture or business alliance in respect of financing, technological management, product development, management strategies or otherwise, such joint venture or business alliance may be terminated. Additionally, the Group's partners or members of a joint venture or associated company may not be able to meet their financial or other obligations, which may expose the Group to additional financial or other obligations.

Any of the foregoing risks may have a material adverse effect on the Group's reputation and the value of its investments or potentially subject the Group to additional claims, each of which may in turn have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**19. *The Group may from time to time make acquisitions and engage in other transactions to complement or expand its existing business. However, the Group may not be successful in acquiring suitable targets at acceptable prices and integrating them into its operations, and any acquisitions may lead to a diversion of management resources.***

The Group may in the future consider acquiring, making investments or forming joint ventures that complement, enhance or expand the Group's current portfolio of lighting products and services or otherwise offer growth opportunities (e.g., the Group's acquisition of a 51% interest in GLC to gain access to the lighting market in the Kingdom of Saudi Arabia in 2014). If the Group is unable to identify suitable targets, the Group's growth prospects may suffer, and the Group may not be able to realize sufficient scale advantages to compete effectively in all markets. In addition, in pursuing acquisitions, the Group may face competition from other companies in the lighting industry. The Group's ability to acquire targets may also be limited by applicable antitrust laws and other

regulations. To the extent that the Group is successful in making acquisitions, it may have to spend substantial amounts of cash, incur debt, assume loss-making business units and incur other types of expenses in order to acquire and integrate the acquired businesses. The Group may also face challenges in successfully integrating acquired companies into its existing organization, which may distract management from other tasks. In addition, the Group may face challenges in delivering the originally envisioned value creation of an acquisition due to various factors, including some beyond the control of the company, such as changes in economic and political conditions. For example, the intensified geopolitical situation in the Middle East and depressed oil prices may result in customers experiencing difficulties in completing ongoing projects or fulfilling existing payment obligations or in a cut back in government spending resulting in delays of government tenders and scale down of planned infrastructure projects. Any of the foregoing factors may adversely affect GLC's results or operations (including revenues from sales in the Kingdom of Saudi Arabia), financial condition and prospects and ultimately the Group's results of operations and financial condition, including through an impairment of goodwill relating to the original acquisition of GLC. Acquisitions may also expose the Group to liabilities it may not be aware of at the time of the acquisition, for example if acquired companies and business do not act, or have not acted, in compliance with applicable laws and regulations. The Group's acquisitions may not ultimately provide the results that the Group initially envisioned when making the related acquisition. Any of the foregoing risks may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**20. *The Group may from time to time desire to exit certain product lines, businesses or markets, but may not be successful in doing so.***

From time to time, the Group may decide to divest or exit certain product lines, businesses or markets. The Group has, in recent years, exited several of its product lines and businesses. The Group may continue to do so in the future. However, the Group's ability to successfully exit from product lines, businesses and markets, depends on a number of factors, many of which are outside of its control. For example, the Group may not find a buyer for a particular business line, or the Group may not be successful in negotiating satisfactory terms with prospective buyers. In addition, the Group may face regulatory or contractual restrictions on divestiture. In particular, several of the Group's operations and manufacturing plants are subject to collective bargaining agreements and social plans or require the Group to consult with its employee representatives, such as work councils, which may prevent or complicate the Group's efforts to sell or restructure its business. In some cases, there may be laws or other legal impediments that may affect the Group's ability to carry out such sales or restructurings. If a divestment or exit of a certain product line or business is successful, the Group may face indemnity and other liability claims in the future, including claims for financial support of divested businesses or their employees. If the Group is unable to exit a product line, business or market, in a manner the Group's deems to be advantageous and timely, this may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**21. *Risk of unauthorized use of intellectual property rights of the Group may cause the Group's business, results of operations and financial condition to suffer.***

The Group produces and sells products and services which are protected by intellectual property rights. The Group develops and acquires intellectual property rights on a regular basis. On 31 March 2016, the Group held a portfolio of intellectual property rights including over 25,000 registered intellectual property rights, of which over 14,000 were patent rights.

If the Group is not able to adequately protect or enforce the proprietary aspects of its products and services, competitors may utilize the Group's proprietary rights and the Group's business, results of operations and financial condition may be harmed. The Group relies on a combination of patent, copyright, trademark, design right and trade secret laws, contractual restrictions and similar means to establish and protect proprietary rights in the Group's technologies and corporate and brand identity. Despite all efforts, other parties may attempt to disclose, obtain, reverse-engineer or use the Group's technologies. The Group's competitors may also be able to independently develop products that are substantially equivalent or superior to the Group's products or design around the Group's proprietary technology.

The laws of some countries do not protect proprietary rights to the same degree as is customary in Europe or the United States and there is a risk that the Group's proprietary rights may not be adequate in these countries. Many companies have encountered significant problems in protecting their proprietary rights against copying or infringement in such countries, some of which are countries in which the Group sells its products and services. The application of laws governing intellectual property and trade secret rights in developing markets is uncertain and evolving and may involve substantial risks to the Group. If the Group is unable to adequately protect its intellectual property and trade secret rights in developing markets, the Group's attempts to penetrate such markets may be harmed.

In order to protect or enforce its intellectual property rights, the Group may initiate litigation against third parties, such as infringement suits or interference proceedings. Any lawsuits that the Group initiates could be expensive, take significant time and divert management's attention from other business concerns. The outcome of litigation is highly unpredictable. Litigation also puts patents, trademarks and design rights at risk of being invalidated or, in case of patents, interpreted narrowly. The Group may not prevail in any lawsuits that it initiates and the damages or other remedies awarded, including attorney fees, if any, may not be commercially valuable.

The occurrence of any of the foregoing events may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***22. The Group may require access to third party intellectual property rights for its products and services and third parties may assert intellectual property rights against the Group.***

Patent license and patent cross-license agreements are common practice in the lighting industry. In certain areas, the competitive position of the Group is based on patent cross-license agreements which it entered into with its competitors. Such agreements typically only cover patents filed within a certain defined period. If the Group is unable to enter into new or renew existing patent cross-license agreements at regular intervals to also cover patents filed after such period, this may have a material adverse effect on the competitive position of the Group and may leave it with insufficient licenses to continue its business. Patent license and cross-license agreements might also be at risk in case of certain circumstances such as insolvency of counterparties of the Group.

Technology covered by third party intellectual property rights may be unavailable or available only on unfavorable terms and conditions to the Group. The validity of intellectual property rights owned by third parties may need to be challenged while at the same time alternative solutions avoiding use of third party rights may need to be investigated and developed. However, the Group may not be successful in all cases or may not be able to obtain all licenses necessary to use a technology relevant to it.

Third parties may claim that the Group infringes their intellectual property rights and commence patent litigation against the Group that may require substantial financial and personnel resources. Depending on the outcome of any such litigation, which is usually difficult or impossible to predict, the Group may be prevented from using corresponding technologies and manufacturing or distributing certain products, and may be held liable for damages by the owners of such asserted intellectual property rights. Disputes and litigation may lead to payments of significant amounts. Particularly in the United States, patent-holding companies that do not make or sell products (often referred to as "patent trolls") may claim that the Group's products infringe upon their intellectual property rights, and the litigation or settlement of these matters, regardless of the merit of the claims, may result in significant costs and consume personnel resources.

The Group may as a result of third party intellectual property assertions also be held to have licensed the asserted intellectual property rights, requiring the Group to pay significant licensing fees. Even if asserted claims are not valid, they may expose the Group to significant costs. In recent years, such costs have been relatively low, but this may change in the future with the incorporation of digital technology, including software applications, in the Group's products, systems and services. Moreover, the licensing activities of the Group have intensified in recent years with the Group initiating more law suits and signing up more licenses for its licensing programs. These intensifying licensing activities of the Group may provoke third parties to assert counter claims against it.

The Group also runs the risk of infringing intellectual property rights of third parties by sourcing components and products from suppliers. Concerning sourced items, it may be difficult to obtain indemnification from third party claims from the supplier.

Expenditures to acquire licenses, the development of alternative non-infringing technologies and litigation and the payment of damages in connection with the infringement of intellectual property rights owned by third parties, as well as potential court injunctions preventing the Group from manufacturing and distributing certain products, may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***23. The Group sets high quality standards for its products but it is possible that products may contain defects or otherwise not perform as expected. Quality defects may reduce sales, result in costs associated with warranty or product liability claims or require recall of affected items.***

Manufacturing of the Group's products involves complex processes, and defects have in the past, and could in the future, occur in the Group's products. In addition, it is possible that certain of the Group's products may not perform as expected (*e.g.*, in terms of estimated life span and energy savings). These defects or shortfalls may cause the Group to incur significant warranty, support and replacement costs. Furthermore, the Group may become subject to actions by regulatory authorities related to alleged failures of products, which actions may



result in fines or costs incurred in connection with product recalls or the defence and resolution of any regulatory enforcement actions. Depending on the type of product involved and damage caused, the costs incurred in conducting recalls and exchanging defective or non-performing products may significantly exceed the cost of the product.

Additionally, failures or malfunctions of the Group's products may lead to claims for property damage and personal injury, alleged to have been caused by such failure or malfunction. In particular, the Group is on occasion put on notice by individual claimants or their insurers when fires may have been related to products manufactured and/or marketed by the Group. If forensic investigations do not rule out the involvement of the Group's products, the Group may become subject to liability claims by the claimants or their insurers. Although to date such claims have not resulted in material loss to the Group, the Group, on the same basis as other lamp and luminaire manufacturers, expects that it will continue to be subject to legal proceedings seeking to hold the Group liable for property damage and personal injury resulting from fires alleged to have been caused by the failure or malfunction of products manufactured and/or marketed by the Group.

Claims for damages and/or personal injury have related to such Group products as fluorescent lamps, ballasts, and high-intensity discharge ("HID") metal halide lighting systems. HID metal halide lamps are generally subject to non-passive or explosive failure of the lamp while operating under high temperature and pressure. These events, which occur most frequently when a lamp has been operated well past its published lifetime, can result in the discharge of heated materials capable of initiating a fire. HID metal halide lamps are currently either engineered with glass shrouds designed to contain any discharge of lamp fragments upon a non-passive failure or are specified to be used only in luminaires with secondary containment such as a lens which acts as a barrier to protect the area surrounding the lamp from the discharge of materials in the event of such events. Despite the large number of metal halide lamps used in the last 15 years by multiple suppliers across the industry, there have been very few instances to date of property damage and personal injury claims resulting from the alleged failure of metal halide lamps and luminaires. It should be noted, however, that despite the fact that a non-passive failure is well-understood and relatively rare occurrence, because metal halide lamps and luminaires are often used in large industrial plants and commercial properties, property damage caused by a defective product could be significant. The Group is currently conducting a review of certain acrylic lenses that have been utilized in luminaires manufactured and sold by the Group. The purpose of this review is to review the performance of such acrylic lenses in containing hot lamp fragments in event of the non-passive failure of an installed lamp when properly used as part of a metal halide lighting system. The Group cannot predict the outcome of this review, or what steps, if any, the Group may determine are required based on the results of the review, or of the aggregate costs of such steps.

The Group has obtained insurance coverage which it believes is adequate for its type of business and which generally covers the cost of recalls (excluding product costs and subject to certain deductibles and limits) and liability claims for damage to property and injuries. There is, however, no assurance that the Group will be able to continue to maintain such insurance at reasonable costs or in sufficient amounts to protect the Group against losses due to product liability. If products that the Group sources from third party suppliers are defective, the Group may be unable to enforce full recourse against such suppliers. In addition, product defects and recall actions may divert the attention of the Group's management and engineering personnel and can entail reputational damage which may reduce future sales. Such costs and reputational damage may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***24. The Group may suffer substantial losses in the event of a natural disaster, terrorist attack or other casualty event in markets in which it operates.***

The Group's global operations are subject to the risk of natural disasters, such as, among others, earthquakes, typhoons, fires and floods. Additionally, large disasters, terrorist attacks, riots and civil commotion or other casualty events may disrupt the Group's operations despite any absence of direct physical damage to its properties by causing a material economic downturn, whether in the affected area or a country in which the Group operates. A catastrophic loss of lives, businesses and infrastructure may have an indirect impact on the Group by affecting its employees, customers, business partners and suppliers, and may consequently affect the Group's production, sourcing and reduce the demand for its products. In addition, risks may not be insured or the Group's insurance cover may not protect it against all damages or related business interruptions resulting from the events described above. With or without relevant insurance coverage, damage to any of the Group's offices, branches, operational manufacturing plants or distribution network or to third parties (*e.g.*, suppliers), due to natural disasters, terrorist attacks or other casualty events, may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**25. *The Group relies upon the uninterrupted operation of its production work flows and available IT systems, and is exposed to the risks of interruption, loss of information, IT security threats, computer crime and breaches of data confidentiality and integrity.***

Technical, logistical or other disruptions may occur and lead to a temporary stoppage of individual plants or plant components that are material to the Group's business and production activities. An associated interruption of production or shipping may prevent the Group from meeting its supply obligations to its customers. This may cause customers to file a claim (especially for damages) or cause customers to cease purchasing from the Group.

In particular, the efficient operation of the Group's business is dependent on IT systems. The Group relies on those systems generally to manage the day-to-day operation of the Group's business, manage relationships with customers, maintain R&D data and maintain financial and accounting records. Additionally, the integration of acquired companies and successful outsourcing of business processes are highly dependent on secure and well controlled IT systems. The interruption or failure of IT systems, the Group's inability to successfully maintain and enhance the IT systems or any compromise of the integrity or security of the data generated from the IT systems may adversely affect the Group's results of operations, disrupt its business and product development and may limit its ability to respond to customer demands. In particular, the Group's systems and services businesses rely on networks and software which may be vulnerable to damage or interruption.

The Group's IT systems and certain of its technology-based products and services are vulnerable to damage or interruption from:

- attacks by computer viruses or hackers;
- cyber-based attacks or network security breaches;
- earthquake, fire, flood and other natural disasters;
- employee or other theft;
- power outages; and
- computer systems, internet, telecommunications or data network failure.

In recent years, the risks that the Group and other companies face from cyber-attacks have increased significantly and may further increase in the future as the Group increasingly provides connected lighting systems and services in the Internet of Things (*i.e.*, the network of physical objects, devices and other items which are embedded with electronics, software, sensors and network connectivity which enables these objects to collect and exchange data). The objectives of these cyberattacks vary widely and may include disruptions of operations including provision of services to customers or theft of intellectual property or other sensitive information belonging to the Group or its business partners. Successful cyber-attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other liabilities to customers and partners. Furthermore, enhanced protection measures can involve significant costs. Although the Group has experienced cyber-attacks, it has not to date incurred any significant damage as a result and did not incur significant monetary cost in taking corrective action. However, there can be no assurance that future cyber-attacks will not result in material damages or corrective costs to the Group.

The Group is relying on the IT systems of Royal Philips during a 12-month transition period after the separation of the Group from Royal Philips (the "**Separation**") to support its operations and faces certain risks in this regard, as further explained in "*The Group relies on Royal Philips to perform certain services after the Separation, including with respect to IT, and the Group may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company*" below.

Any of the foregoing risks may have a material adverse effect on the Group's reputation and its business, results of operations, financial condition and prospects.

**26. *The Group is dependent on its personnel for leadership and specialized skills and the loss of its ability to attract and retain such personnel may have an adverse effect on its business.***

The attraction and retention of talented employees in sales and marketing, R&D, design, intellectual property, finance and general management, as well as of highly specialized technical personnel is critical to the Group's success. This is particularly valid in times of economic recovery. The loss of specialized skills may also result in business interruptions. Competition for qualified employees among established companies and start-ups that rely heavily on engineering and technology expertise is intense, in particular in Asia, and in the past the Group has seen qualified employees leave the Group as a result thereof. The Group expects that competition for qualified employees might grow further in the future as the Group is separated from Royal Philips and the



number of competitors in the LED lighting technologies market grows. As part of the Separation, the Group agreed certain principles with Royal Philips to ensure that employees who worked exclusively on lighting products and services were allocated to the Group. Employees who did not work exclusively on either lighting or healthcare products and services were allocated on a pro rata sharing basis between the Group and Royal Philips. The loss of qualified employees or an inability to attract, retain and motivate highly skilled employees may hinder the Group's ability to successfully conduct research activities or develop marketable products and bring those products to market, each of which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**27. *The Group is dependent on its relationships with its workforce. Strikes and other labor-related conflicts as well as rising wages or indirect labor costs may have a material adverse effect on its business.***

Personnel expenses represent a significant cost factor for the Group. The majority of the Group's staff is covered by collective bargaining agreements. There is no guarantee that when existing collective bargaining agreements expire, new agreements will be concluded on terms that are mutually satisfactory and beneficial to the Group. It also cannot be ruled out that such an agreement will only be reached following strikes or similar actions, potentially affecting production over a longer period of time. The Group's relationship with its employees may also be negatively affected by the disruptive trends in the lighting industry that require changes in the Group's production process and requires the closure of further operational manufacturing plants together with the need to transfer employees to new operational manufacturing plants and processes or to reduce its workforce. For more information, see "A significant portion of the Group's existing operational manufacturing plants has or will become obsolete due to the transition from conventional lighting technologies to LED lighting technologies, which has resulted in and is expected to continue to result in significant costs to the Group" above. In the Group's operations in emerging markets, labor costs may continue to increase as a result of inflationary trends in these countries and rising unrest among low paid workers. Indirect labor costs may increase due to continued inflation of medical costs. Certain management decisions within the Group are subject to prior approval or prior advice from works councils, for example, see "Existing Shareholders and Related Party Transactions—Existing Shareholders". Certain decisions by the Selling Shareholder as majority shareholder may be attributed to the Group's management. Works councils may, when asked for approval or advice, withhold their approval or render negative advice or impose conditions to an approval or a positive advice which could be onerous in certain cases. Any of these events might delay the implementation of management decisions or force management to amend decisions. If one or more of these risks materialize, this may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**Risks Relating to the Separation and the Establishment of the Company as an Independent Publicly Listed Company**

**28. *Due to the Separation, the Company has prepared the Combined Financial Statements for this Prospectus based on carve-out financial information. The financial information presented in this Prospectus therefore differs from what the financials would have been if the Company had been an independent company and is not necessarily representative of the historic or future position of the Company as a separate, publicly listed company.***

Royal Philips did not account for the Company, and the Company was not operated, as a separate, stand-alone company before the Separation. This Prospectus contains combined financial information of the Group, which has been derived from the combined financial statements of the Group as of and for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 (the "**Combined Financial Statements**") and is based on the consolidated financial statements of Royal Philips and its accounting records. As a result, the Combined Financial Statements do not necessarily reflect what the Group's results of operations, financial condition and cash flows would have been had the Group operated as a separate, stand-alone group during the periods presented in this Prospectus and are not necessarily indicative of the Group's future results of operations, financial condition or cash flow. Differences may arise from, among other factors:

- the historical costs and expenses reflected in the Combined Financial Statements include an allocation for certain services from corporate functions historically provided to the Group by Royal Philips, including legal, finance, human resources and other administrative functions. These allocations are based on what the Group and Royal Philips consider to be reasonable reflections of the historical utilization levels of these functions required in support of the Group's business. There can be no guarantee that such costs are not significantly higher or lower than the comparable expenses the Group would have incurred as an independent company. For example, such costs could be higher than the comparable expenses the Group would have incurred as an independent company if the Group on a standalone basis would have been able to outsource such services at lower cost. Conversely, such costs could be lower than the comparable expenses

the Group would have incurred as an independent company if a single employee combined the provision of services to the Group and Royal Philips, and the Group on a standalone basis would have to hire at least one employee to secure the provision of such services;

- the Combined Financial Statements do not reflect that the costs of debt funding and related costs that would be necessary as a standalone company are expected to be higher;
- the Combined Financial Statements do not fully reflect any potential increased costs associated with being an independent publicly listed company, including possible changes in the Group's cost structure, management, financing arrangements and business operations as a result of the Separation;
- as a separate smaller company, the Group may lose the benefit of some economies of scale which Royal Philips was able to achieve with respect to administrative operations; and
- the Combined Financial Statements do not fully reflect the Group's pension plan costs and liabilities as a separate entity, and such costs and liabilities may differ significantly as a result of setting up the Group's stand-alone plans.

The adjustments made to prepare the Combined Financial Statements do not reflect, among other things, changes in the Group's funding as a result of the Separation. For more information see "Operating and Financial Review—Basis of Preparation of Financial Statements" and the Combined Financial Statements and the accompanying notes.

**29. *Actual pension liabilities and costs following the Separation may differ significantly from those set out in the Combined Financial Statements.***

Employees of the Group have historically participated in Royal Philips-sponsored pension plans in which the Group and other Royal Philips businesses participated. The costs of pension benefits with respect to the Group's employees participating in these plans have been allocated to the Group based upon historical accrual, compensation, headcount and allocation of personnel. These allocations are reflected in the Combined Financial Statements. The Group's liability amounts as reflected in the Combined Financial Statements were €(43) million, €(40) million and €(23) million as of 31 December 2015, 2014 and 2013, respectively, which do not include any additional liabilities allocated to the Group as part of the Separation. For pension plans in which only the Group's employees participate (dedicated plans), the related costs, assets and liabilities have been included in the balance sheets included in the Combined Financial Statements. The net balance of defined-benefit pension plans, including additional assumed net pension obligations for the periods prior to the Separation Date, which are not reflected in the Combined Financial Statements, were €(607) million, €(524) million and €(449) million as of 31 December 2015, 2014 and 2013, respectively. See "Management, Employees and Corporate Governance—Pension Schemes" for more information about the Group's defined benefit plans. As part of the Separation, significant pension assets and liabilities have been legally transferred to the Group on a country by country basis, based on the relationship between pension liabilities and the respective Royal Philips and the Group's businesses or, if such relationship was not decisive, on a variety of legal, fiscal, financial and practical considerations. Based on the current funding levels of the pension plans (in particular the U.S. and German pension plans), the liabilities transferred to the Group exceeded the assets transferred to the Group, and as a result the Group recorded accrued pension costs of €224 million, a provision of €271 million related to unfunded pension liabilities and a provision of €112 million related to retiree medical liabilities at the Separation. The transfer also resulted in the Group recognizing €122 million in deferred tax assets, relating to the transferred pension deficit. As of 31 March 2016, the net pension liability (including retiree medical liabilities) amounts to €587 million and the related deferred tax assets arising from the transferred pension liabilities have decreased to €101 million.

As part of the Separation, significant pension assets and liabilities were allocated to the Group on a country by country basis, based on the relationship between pension liabilities and the respective Royal Philips and the Group's businesses or, if such relationship was not decisive, on a combination of legal, fiscal, financial and practical considerations. This allocation of pension assets and liabilities was complex and certain implications of the Separation are uncertain. For example, with respect to the Group's pension benefits for its Dutch employees, the Group will continue participating in the pension plans operated by the Philips Pension Fund after the Separation. However, the terms and conditions (e.g., premium contribution levels) for this pension plan will have to be renegotiated with the relevant unions before the end of 2018 and it is not certain that the Group will be willing and able to continue to offer such pension benefits. There is a risk that the Group may change its pension plan in the Netherlands and will be faced with compensation claims from Dutch employees or their representatives, which may have a material adverse impact on the Group's pension liabilities in the Netherlands.

Following the Separation, the Group's pension liabilities depend on various factors and assumptions, for more information see "*The Group has pension plans and retiree medical benefit plans in a number of countries. The funded status and the cost of maintaining these plans are influenced by movements in financial markets and*

*demographic developments and may adversely affect the Group's financial condition*" below. The Group's actual costs to meet these liabilities going forward may differ significantly from those set out in the Combined Financial Statements and may have a material adverse impact on its financial condition.

**30. *The Group relies on Royal Philips to perform certain services after the Separation, including with respect to IT, and the Group may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company.***

Prior to the Separation, the Group had not been operated as a stand-alone company. The Group has historically relied on Royal Philips for various financial, tax and other corporate services and IT systems to support the Group's operations. Royal Philips is continuing to supply the Group with certain of these services and systems, generally for a period of up to 12 months after the Separation. To this end, the Group and Royal Philips have entered into several transitional services agreements. For more information see "Separation". Such transitional services may not be sufficient to meet the Group's needs and, after its agreements with Royal Philips expire, the Group may not be able to replace these services at all or obtain these services at prices or on terms as favorable as it currently has. In particular in respect of IT, certain aspects of the migration to an independent IT platform will be challenging and complex to achieve within 12 months after the Separation. If Royal Philips is unable to satisfy its obligations under these transitional services agreements, including with respect to IT, the Group may suffer operational difficulties or losses but may not be able to claim for damages. If the Group is unable to timely replace the relevant systems or services after the transition period with an adequate internal solution or external service provider at reasonable costs, the Group may incur operational difficulties or losses. Each of the foregoing circumstances may have a material adverse effect on the Group's business, results of operations and financial condition.

**31. *The Group may not be successful in establishing a new corporate and brand identity.***

Historically, the Group has conducted its business under the Philips company name and brand. Following the Separation, the Group has secured the right to use the Philips company name and a license to use the Philips brand for a limited period of time and under certain conditions. More specifically, the Group may use the Philips company name for a period of 18 months after the date that it is no longer controlled by Royal Philips and it may use the Philips brand for products and services for an initial period of ten years following the Separation. The brand license provides for two possible extension periods of five years if certain targets are met. After the respective 18-month and ten-year periods, there is no guarantee that the Group can continue its business under the Philips company name or brand. In addition, Royal Philips may under certain conditions terminate the Group's right of use or license before they have expired. The brand license is subject to royalty payments. The Group expects that the net effect of the royalty payment to be made to Royal Philips under the trademark license agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016 ("TMLA") annually will be approximately €20 million higher than the historical costs allocated to the Group for promotion of the Philips brand that are reflected in the Combined Financial Statements for the year ended 31 December 2015. For more information see "Separation—Intellectual Property". The value of the Philips company name and brand is recognized by the Group's suppliers, customers and potential employees. When the right of use or license is terminated, including at the end of its respective term, the Group will need to spend significant time, effort and resources to establish a new company and brand name in the marketplace. The Group cannot guarantee that this effort will ultimately be successful. If the Group's efforts to establish a new corporate and brand identity are unsuccessful, its business, results of operations and financial condition will be materially adversely affected.

**32. *The Group may lose rights to key intellectual property arrangements as a result of no longer being a business segment of Royal Philips.***

As part of the Royal Philips group, the Group benefited from some of Royal Philips's intellectual property arrangements, including cross-licensing arrangements with other companies and licenses from third parties of technology incorporated in its products and used to operate its business. As a result of leaving the Royal Philips group, the Group may no longer be a beneficiary under certain of these arrangements, for instance because necessary third party consents may not be obtained for assignment of such arrangements or because the Group cannot benefit from divested company rights under such arrangements. Notably, most-cross licensing arrangements contain third party termination rights upon Royal Philips losing a certain controlling interest in the Group, depending on the specific terms of the arrangements. Consequently, the Group may no longer have the right to use important intellectual property that it was previously licensed to use and may therefore be subject to claims that it is infringing intellectual property rights of third parties through the manufacture and sale of the Group's products and the operation of its business. Therefore, the Group may be exposed to claims by such parties that its products or operations infringe such parties' patents or other intellectual property rights. In addition, third parties may have refrained from asserting intellectual property infringement claims against the

Group because the Group was formerly a business segment of Royal Philips. Following the Separation, these third parties may attempt to pursue such claims against the Group. Any of the foregoing risks, may have a material adverse impact on the Group's business, results of operations, financial condition and prospects.

**33. *Potential indemnification obligations to Royal Philips pursuant to the Separation Agreement could subject the Group to substantial liabilities.***

On 1 February 2016, Philips Lighting Holding B.V., the previous parent company of the Group, and the Selling Shareholder entered into an agreement (the "**Separation Agreement**") and a set of ancillary agreements to document the various arrangements between the two companies to effect the Separation. The Separation Agreement and the ancillary agreements will be assigned to the Company prior to the Settlement Date. Among other things, the Separation Agreement provides for indemnification obligations designed to make the Group financially responsible for substantially all liabilities that may exist relating to the lighting business, whether incurred prior to or after the Separation, as well as those obligations of Royal Philips assumed by the Group pursuant to the Separation Agreement, including with respect to liability in respect of this Prospectus. For more information see "Separation—Liability regime". If the Group is required to indemnify Royal Philips under the circumstances set forth in the Separation Agreement, the Group may be subject to substantial liabilities, which may have a material adverse effect on its business, results of operations and financial condition.

**34. *In connection with the Separation, Royal Philips agreed to indemnify the Group for certain liabilities. However, there can be no assurance that the indemnity will be sufficient to insure the Group against the full amount of such liabilities, or that Royal Philips' ability to satisfy its indemnification obligation will not be impaired in the future.***

The Separation Agreement provides for indemnification obligations designed to make Royal Philips financially responsible for substantially all liabilities other than in relation to the lighting business, whether incurred prior to or after the Separation. However, third parties could seek to hold the Group responsible for any of the liabilities that Royal Philips has agreed to retain, and there can be no assurance that the indemnity from Royal Philips will be sufficient to protect the Group against the full amount, or any, of such liabilities, or that Royal Philips will be able to satisfy its indemnification obligations. Moreover, even if the Group ultimately succeeds in recovering from Royal Philips any amounts for which the Group is held liable, the Group may be temporarily required to bear these losses itself. After the Separation, Royal Philips' insurers may deny coverage to the Group for liabilities of Royal Philips associated with occurrences prior to the Separation or prior to the Settlement Date. Even if the Group ultimately succeeds in recovering liabilities from such insurance providers, the Group may be required to temporarily bear such loss of coverage. If Royal Philips is unable to satisfy its indemnification obligations or if insurers deny coverage, the underlying liabilities may have a material adverse effect on the Group's business, results of operations and financial condition.

**35. *Following the Offering, the Selling Shareholder will continue to have a position to exert substantial influence over the Company and its interests may differ from the interests of the Company's other Shareholders.***

Immediately after the closing of the Offering, the Selling Shareholder will hold approximately 71.25% of the Company's issued and outstanding share capital (assuming full placement of the Offer Shares and full exercise of the Over-Allotment Option). The Selling Shareholder will be in a position to exert substantial influence over the general meeting of the Company (in the context of this risk factor being the corporate body, but where another context so requires, the physical meeting of shareholders, both the "**General Meeting**") and, consequently, on matters decided by the General Meeting, including the appointment and dismissal of members of the board of management of the Company (the "**Board of Management**") and supervisory board of the Company (the "**Supervisory Board**"), the adoption of the annual accounts, the distribution of dividends, the amendment of the articles of association of the Company as they will read after the Settlement Date (the "**Articles of Association**") or any proposed capital increase. In addition, as long as the Selling Shareholder holds at least one-tenth of the issued share capital of the Company, it has the statutory right to request the convocation of a General Meeting and as long as the Selling Shareholder holds at least 3% of the issued share capital of the Company it has the statutory right to request the inclusion of an item of the agenda of the General Meeting (see also "Description of Share Capital—General Meeting and Voting Rights").

In addition, pursuant to a relationship agreement to be entered between the Company and the Selling Shareholder on or prior to the Settlement Date governing the relationship between the Company and the Selling Shareholder (the "**Relationship Agreement**"), the Selling Shareholder will have the right to propose nominees for appointment as members of the Supervisory Board. As long as the Selling Shareholder's shareholding in the Company equals or exceeds 30% of the Ordinary Shares, there shall be two members of the Supervisory Board nominated by the Selling Shareholder ("**Royal Philips Nominees**"). Once the Selling Shareholder's holding of the issued and outstanding



Ordinary Shares falls below 30% but is equal to or exceeds 15%, there shall be one Royal Philips Nominee on the Supervisory Board. Once the Selling Shareholder's holding falls below 15%, there shall be no Royal Philips Nominee on the Supervisory Board if so requested by the Company. Certain resolutions of the Supervisory Board shall require the affirmative vote of a Royal Philips Nominee. See "Existing Shareholders and Related Party Transactions Policy—Relationship Agreement" for more information.

In any of the above instances, the interests of the Selling Shareholder could deviate from the interests of the Company's other holders of Ordinary Shares and Preference Shares (as defined below) (together "Shares", and the holders thereof "Shareholders"). As the major Shareholder, the Selling Shareholder may, subject to applicable law, delay, postpone or prevent transactions that might be advantageous for investors. Furthermore, the concentration of ownership may adversely affect the trading volume and market price of the Ordinary Shares.

**36. *The Company may face increased administrative, financial and related expenses as a result of operating as an independent company.***

As a business sector of Royal Philips, the Group historically had access to a wide range of administrative, financial, IT, logistics and other services that are provided centrally to Royal Philips' group of companies. The Group may incur increased administrative expenses as a stand-alone company, including expenses for services that will continue to be provided by Royal Philips pursuant to transitional services agreements. The Group may also face increased expenses whilst it continues to develop and recruit employees to fill key functions, particularly those in the treasury and financial reporting functions, as part of ongoing separation efforts. In addition, as a smaller company, the Group may also lose the benefit of some economies of scale that Royal Philips was able to achieve with respect to administrative operations. The Group has limited experience operating as a stand-alone entity, and it is possible that these increased costs will be materially higher than anticipated. In the future, the Group will also no longer benefit from funding previously provided by Royal Philips or from external financing supported by collateral provided by Royal Philips (e.g., guarantees). Without further support activities of Royal Philips and dependent on the Group's own credit standing, its future financing and its providing guarantees as security for the Group's contractual obligations towards third parties may become more difficult and more expensive as an independent company. The withdrawal from the Royal Philips group of companies may also lead to the loss of business opportunities and higher procurement costs as the Group's business partners took into consideration other business opportunities relating to Royal Philips when they entered into business with the Group previously. Any of the foregoing developments may have a material adverse effect on the Group's competitive position and its business, results of operations, financial condition and prospects.

**37. *The history of the combined Group, the Separation of the Group from Royal Philips and the Offering may result in adverse tax consequences.***

Following the Separation, there are several significant areas where the liabilities of Royal Philips may become the Group's obligations. For example, under the U.S. Internal Revenue Code and the related rules and applicable treasury regulations, each Group Company that was a member of the Philips Holding USA Incorporated consolidated tax reporting group is severally liable towards the U.S. government for the U.S. federal income tax liability of the entire Philips Holding USA Incorporated consolidated tax reporting group for any taxable year during any part of which it was a member. Also, under the Dutch Collection of State Taxes Act, each Group Company that was a member of the Royal Philips fiscal unity for Dutch corporate income tax purposes is severally liable towards the Dutch government for the Dutch corporate income tax liability of the entire Royal Philips fiscal unity for Dutch corporate income tax purposes for the period during which that Group Company was a member. Furthermore, under the Dutch Collection of State Taxes Act, each Group Company that was a member of the Royal Philips fiscal unity for Dutch value added tax purposes is severally liable towards the Dutch government for the Dutch value added tax liability of the entire Royal Philips fiscal unity for Dutch value added tax purposes for the period during which that Group Company was a member. The Dutch tax authorities also have the right to set-off any taxes payable by a member of the Royal Philips fiscal unity for Dutch corporate income tax with any taxes receivable of any Group Company that was a member of the Royal Philips fiscal unity for Dutch corporate income tax purposes in respect of any taxable period ending on or before Settlement Date. Consequently, the failure of Royal Philips to comply with its tax obligations may have a material adverse effect on the Group's results of operations and financial condition, although the Separation Agreement does provide for an allocation of historical tax liabilities to ensure that such liabilities are for the account of either Royal Philips or the Group. In addition, the Group is generally required to indemnify Royal Philips for any historical tax liabilities associated with the Group's business. Furthermore, the disentanglement of the Group's business from Royal Philips was effected through multiple types of separation structuring such as share transfers, asset transfers and demergers. The Group has taken positions with regard to the tax consequences of the separation structuring and the subsequent Offering (including in respect of the tax attributes that remain available to the Group after the Separation or the Offering) in the different jurisdictions in which it operates and has effectuated the

disentanglement based on those positions. The local tax authorities may not agree with the positions taken by the combined group. As such, there can be no assurance that such positions will not be questioned by the relevant tax authorities. Future adjustments made in this respect (including in respect of available tax attributes) may have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Further, under the Separation Agreement the Group is generally required to indemnify Royal Philips for any increase in the tax liabilities of Royal Philips (including the reduction of tax losses, deductions or other tax reliefs) as a result of (i) an adjustment or correction by a tax authority to the valuation used for the transfer of assets or shares of the Group Companies in connection with the Separation, or (ii) a reversal, denial or claw-back of certain tax reliefs claimed by Royal Philips in connection with the Separation. If any such indemnity obligation is triggered, the Group may be subject to substantial liabilities which may have a material adverse effect on its financial condition. Finally, the delayed Separation, and in particular the delayed transfer of the U.S. Group Companies in the second quarter of 2016, may result in a loss of certain tax attributes of the U.S. Group Companies including a reduction in the basis of certain assets for U.S. tax purposes with respect to which a deferred tax liability may be recognized.

## **Legal and Compliance Risks**

### ***38. The Group is involved or may become involved in legal proceedings.***

The Group, including a certain number of its current and former group companies, 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 environmental pollution, competition issues and intellectual property infringements (among other things). While the Group does not currently consider any of its existing legal proceedings to be material, the Group cannot exclude that pending or future legal proceedings may be resolved in a way that is detrimental to the Group and may lead to significant liabilities or damages. The ultimate outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty. In addition, in presenting its combined annual financial statements, management may make estimates regarding the outcome of legal proceedings, regulatory and arbitration matters. The Group makes provisions if payments with respect to such matters are probable and the amount can be estimated reliably. However, as payment may occur potentially several years after the event that caused them, such provisions may prove insufficient. Any of the foregoing circumstances may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### ***39. A material change in applicable laws and regulations, or in their interpretation or enforcement, may materially adversely affect the Group's business, results of operations, financial condition and prospects.***

The Group's business, including its lighting products and services and operations, is subject to extensive laws, regulations and industry standards in the various jurisdictions where the Group operates, markets and distributes its products. Among others, they include environmental, health and safety, financial and tax laws and regulations, which vary from jurisdiction to jurisdiction. Compliance with this complex array of laws, regulations and standards imposed on the Group's products, services and operations is difficult and may require significant capital and operating expenditures or lead to additional manufacturing, servicing and quality control measures. Many of the applicable laws and regulations that affect the Group's products and operations, and the enforcement thereof, have become increasingly complex, stringent and expensive to comply with over time. The Group monitors and adapts to changes in the legal systems, regulatory controls and customs and practices. However, the Group cannot ensure that applicable laws and regulations will not be further revised or that new laws and regulations will not be adopted or become applicable to the Group. New laws and regulations, amendment of existing laws and regulations, increased government enforcement or other developments may require the Group to make additional unforeseen expenditures, in particular changes in relation to the phase out of certain inefficient lamps and the recycling and collection of the Group's products, such as pursuant to the EU Waste Electrical and Electronic Equipment Directive and related regulations. For more information on important regulatory requirements to which the Group is subject, see "Regulation". There can be no assurance as to the amount or timing of future expenditures to comply with laws or regulations, and actual future expenditures may be different from the amounts the Group currently anticipates. Moreover, the increasing complexity and number of regulations may require greater expenditures or significant adjustments to its products and operations. In addition to increasing the Group's costs and liabilities, legal or regulatory changes could also impact the Group's ability to develop new products and its market position, in particular if such changes are more beneficial, or seek to protect, local companies. The Group may be exposed to civil, criminal and administrative fees, fines, penalties or interruptions in its operations due to non-compliance with the laws and regulations imposed by local, regional, national and international authorities. In addition, the Group's tax strategy is affected by laws and regulations and their interpretation by local tax authorities in the jurisdictions in which it operates. A material change in applicable laws and regulations, or in their interpretation or enforcement, may require the Group to alter its



business strategy, leading to additional costs or loss of revenue, which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**40. *The Group's business, results of operations, financial condition and prospects may be materially adversely affected by violations of antitrust laws.***

Due to increasingly active scrutiny by regulators and its global span leading to presence in certain markets where the risk of non-compliance with antitrust laws is perceived to be relatively high, the Group remains exposed to non-compliance with its general business principles in this area. The Group has implemented an elaborate compliance program to address these risks, entailing deployment of controls including raising awareness via training and communication campaigns. However, the Group's compliance program and internal control policies and procedures have not always and, in the future, may not always protect the Group from reckless or negligent acts, including illegal contacts with competitors, restriction of e-commerce and pricing restrictions on distributors. Antitrust law violations, allegations of such violations and related investigations may lead to fines, legal proceedings, harm the Group's reputation and disrupt the Group's business, potentially resulting in a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**41. *The Group's business and operations may be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the United Kingdom Bribery Act 2010 or similar worldwide anti-bribery laws.***

The Group's international operations require it to comply with international and national laws and regulations regarding anti-bribery and anti-corruption, including the U.S. Foreign Corrupt Practices Act and the United Kingdom Bribery Act 2010. These laws and regulations, for example, prohibit improper payments to foreign officials and private individuals for the purpose of obtaining or retaining business and may include reporting obligations to relevant regulatory and governmental bodies. The scope and enforcement of anti-corruption laws and regulations may vary.

The Group operates in parts of the world, that have experienced governmental corruption to some degree, including high risk markets in Asia and Africa, and in certain circumstances, strict compliance with anti-bribery laws and reporting obligations may conflict with local customs and practices. In its international operations, employees of the Group frequently interact with government officials with respect to lighting projects, which account for a significant portion of the Group's sales. In addition, the Group makes use of third parties, also in high-risk markets, which pose an inherent risk to strict compliance with anti-bribery and anti-corruption laws. The Group's compliance programs, internal controls, policies and procedures have not always and, in the future, may not always protect the Group from reckless or negligent acts, including bribery of government officials and private individuals, petty corruption and misuse of corporate funds, committed by the Group's employees or agents, particularly given the decentralized nature of the Group and its use of joint venture arrangements. Violations of these laws, or allegations of such violations, may lead to fines or harm the Group's reputation and may disrupt the Group's business and result in inaccurate books and records, each of which may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**42. *The Group is subject to stringent data privacy laws and may therefore be exposed to increased compliance costs and to confidentiality and security breaches.***

The Group is subject to complex and evolving European and other jurisdictions' laws and regulations regarding the collection, retention, sharing and protection of data which the Group receives from, and which concern, customers, as well as its employees and third parties it deals with. Many of these laws and regulations are subject to change and new, additional requirements may require the Group to modify its business practices and develop new systems and processes, which may increase costs of operations. The Group makes use of innovative products and services that give rise to increased risk of non-compliance under the legal data protection frameworks. Members of the Group that are subject to European data protection laws and process or have third party service providers process personal data in jurisdictions that do not offer a similar level of data protection are subject to an increased risk of non-compliance with EU data protection legislation. Security breaches may lead to unlawful use of personal data for which the Group is responsible, as well as notification obligations towards data protection authorities or individuals, damage to the Group's reputation and claims from individuals. Any failure to comply with privacy laws and regulations or data protection policies may lead to fines and may undermine the Group's reputation and may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**43. *The Group's business and operations may be adversely affected by violations of export control laws and international sanctions.***

Sanctions regimes imposed by governments, including those imposed by the EU, the United States and its Office of Foreign Assets Control, or other countries or international bodies prohibit the Group from engaging in

trade or financial transactions with certain countries, businesses, organizations and individuals. The Group's operations in certain countries, the products it handles, and the services it renders could bring it within the scope of such sanctions regimes. Moreover, the legislation, rules and regulations which establish sanctions regimes are often broad in scope, and in recent years, governments have increased and strengthened such regimes.

A violation of European, United States or international sanctions or export control laws may result in fines or other penalties that may have a negative impact on the Group's reputation and the ability to conduct business in certain jurisdictions or access the U.S. or international capital markets. Any sanctions regime may, even without it being violated by the Group, accordingly have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

**44. *The Group is exposed to financial reporting and internal controls risks.***

The Group's management has established specific accounting and reporting procedures in relation to, amongst other things, its revenue recognition process, taxation and other complex accounting issues. A risk rating is assigned for each risk identified based on the likelihood of occurrence and the potential impact of the risk on the financial statements and related disclosures. In determining the probability that a risk will result in a misstatement of a more than inconsequential amount or material nature, the following factors are considered to be critical: complexity of the associated accounting activity or transaction process, history of accounting and reporting errors, likelihood of significant (contingent) liabilities arising from activities, exposure to losses, existence of a related party transaction, volume of activity and homogeneity of the individual transactions processed and changes to the prior period in accounting characteristics compared to the previous period. Any failure to prevent and detect errors and fraud, including by customers, within the implementation of the Group's accounting and reporting procedures may affect its reputation, business, results of operations, as well as its ability to meet its commercial objectives, and may expose the Group to penalties and fines for violations of accounting or financial reporting obligations. In addition, because the reliability of financial reporting is important in ensuring that management decisions for steering the businesses and managing both top-line and bottom-line growth are based on top-quality data, inaccurate financial reporting could result in the implementation of policies and strategies based on erroneous information. The correctness of disclosures also provides investors and other market professionals with significant information for a better understanding of the Group's business. Imperfections or lack of clarity in the disclosures may create market uncertainty regarding the reliability of the data presented and may have a negative impact on the Group's share price. Any errors in financial reporting or failures in internal controls may require subsequent corrections to the financial information of the Group or result in significant corrective costs. Any of the foregoing risks may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**45. *The Group conducts its business in multiple jurisdictions and is exposed to the tax laws of such jurisdictions, including risks in connection with challenges to its tax position.***

The Group operates on a global basis and is therefore subject to the tax laws and regulations of different jurisdictions. Given that tax laws and regulations are subject to frequent change and their meaning is not always clear-cut or definitive, the tax positions taken by the Group are sometimes based on the Group's interpretations of such laws and regulations. The Group cannot guarantee that such interpretations will not be questioned by the relevant authorities. Further, the authorities may not agree with the tax advice that the Group receives from its outside tax advisors. Also, in some of the jurisdictions in which the Company operates, in particular emerging markets (such as India and Brazil), the legal systems are in varying stages of development. This creates an uncertain business and investment environment and related additional risks. More generally, any failure to comply with the tax laws or regulations applicable to the Group may result in reassessments, late payment interest, fines and penalties. In addition, as a global business, the Group's effective average tax rate from period to period will be affected by many factors, including changes in tax legislation, global mix of earnings, the tax characteristics of the Group's income, the timing and recognition of goodwill impairments, acquisitions and dispositions, adjustments to the Group's reserves related to uncertain tax positions and changes in valuation allowances. Also, a material change in applicable laws and regulations, or in their interpretation or enforcement, may force the Group to alter its business strategy, leading to additional costs or loss of revenue. If, as a result of a particular tax risk materializing, the tax costs associated with particular transactions are greater than anticipated, it may affect the profitability of those transactions. As future developments are uncertain and partly beyond management's control, assumptions are necessary to estimate future taxable profits as well as the period in which deferred tax assets will recover. Any significant increase in the Group's tax burden due to the factors described above is likely to have a material adverse effect on its cash flows, results of operations, financial condition and prospects.

The Group currently expects that its effective income tax rate (without giving effect to the impact of the Separation; see "Separation—Tax" and Note 5 to the Condensed Combined Interim Financial Statements for

more information on the anticipated tax impact of the Separation) will be in the low thirties for the year ending 31 December 2016 and expects it will move below thirty per cent in the medium term. See Note E.8 of the Combined Financial Statements for more information. However, no assurances can be made in this regard. A higher than anticipated effective income tax rate could have an adverse impact on the Group's cash flows, results of operations, financial condition and prospects.

The Group is also expected to face certain tax risks in relation to the Separation, as further explained in "*The history of the combined Group, the Separation of the Group from Royal Philips and the Offering may result in adverse tax consequences*" above.

**46. *The Group is subject to environmental liability risks and regulations and incurs costs to comply with such regulations.***

Costs and obligations in connection with environmental matters are inherent to the Group's past, present and future operations. The Group's operations are subject to laws and regulations in Europe, the United States and other countries in which it operates, which govern the use and discharge of materials into the environment or otherwise relating to the environment. The Group is also active in certain jurisdictions in which limited environmental legislation has been implemented or in which laws and regulations can be implemented with retroactive effect. Implementation of or changes to such legislation may lead to unexpected liabilities of the Group. Furthermore, certain environmental liabilities not directly relating to the Group have been allocated to the Group as part of the Separation (see "Separation—Allocation of Assets and Liabilities").

Some of the Group's manufacturing facilities and sites have been used for industrial purposes for decades and as such, there is a latent risk that these premises may have environmental conditions that require corrective actions as a result of such use. Furthermore, violations or sites with certain environmental conditions that the Group does not know about—including conditions caused by prior owners and operators of such sites, conditions caused by the Group to divested sites, or newly discovered information—may result in additional compliance or corrective actions or other liabilities, which may be material. Even if the Group is not responsible for the specific condition, the Group may be held responsible for the examination and potential corrective actions of plants formerly or presently owned or leased by the Group by law or under contractual obligations, for example in cases of certain soil or groundwater conditions. Although the Group typically agrees to receive (partial) reimbursement of environmental costs from former owners or operators of manufacturing sites, the Group may in practice not be able to fully recover these costs due to various reasons (*e.g.*, insolvency of responsible entity).

In addition, some of the buildings owned or leased by the Group may contain hazardous materials like asbestos that would eventually have to be removed. Environmental liabilities may arise, including clean-up obligations at these sites or at off-site locations where materials from the Group's operations were disposed of, which may result in future expenditures that currently cannot be quantified. Accordingly, the Group's provisions recognized in accordance with the International Financial Reporting Standards ("**IFRS**") as endorsed by the European Union and as issued by the International Accounting Standards Board ("**IASB**") may not be sufficient, but are a reflection of the current best knowledge and may be subject to future adjustments based on progressive insight. Moreover, future developments in environmental regulations may require the Group to increase expenditures for environmental compliance beyond the levels currently anticipated, or have other unanticipated effects. For example, changes to the EU Waste Electrical and Electronic Equipment Directive and related regulations may expose the Group to increased costs with respect to the recycling and collection of the Group's products, such as increased waste management fees, which increased costs the Group may not be able to (fully) pass on to its customers. Furthermore, the previous and future existence of hazardous materials such as the presence of asbestos in the Group's manufacturing facilities or the previous or ongoing use of hazardous substances such as lead, mercury or hazardous dust in the production or the release of hazardous ionizing or non-ionizing radiation in the production process may, due to the potential exposure of people, especially employees or other people working on the Group's sites, despite all precautions, result or have resulted in health impairments or illnesses, for the consequences of which, including examinations, treatment and compensation, the Group may be held liable even if the Group is not at fault.

If one or more of these risks materializes, this may have a material adverse effect on the Group's competitive situation, its reputation and its business, results of operations, financial condition and prospects.

## **Financial Risks**

**47. *The Group is exposed to the movement of foreign currency exchange rates, particularly versus the euro.***

The Group is engaged in an international business that operates in, and makes sales into, countries with different currencies. In particular, the Group has significant sourcing and manufacturing spend in currencies such as the U.S. dollar and Chinese renminbi, while much of the Group's sales are in euro. As a result, the Group is

exposed to foreign currency exchange rate risks in the ordinary course of its operations when transactions are executed or assets and liabilities are denominated in a currency other than the Group's reporting currency, the euro. The Group is primarily affected by movements in foreign currency exchange rates in two ways: (i) through translation of foreign currency financial statements into euro during consolidation, referred to as translation risk, and (ii) through transactions by subsidiaries in the Group in currencies other than their own functional currencies, referred to as the transaction risk.

*Translation Risk.* Translation risk arises during the preparation of the Group's consolidated financial statements. In particular, the Group presents its consolidated financial statements in euro, while the functional currency of each of the Group's subsidiaries depends on the primary economic environment of that subsidiary. As a result of its global operations, the Group has a number of subsidiaries located outside the euro zone and with a functional currency other than the euro. In preparing the consolidated financial statements, the assets and liabilities of foreign non-euro operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions. Accordingly, movements in foreign currency exchange rates against the euro may result in an adverse change in the reported income or balance sheet items from non-euro operations. Examples of translation risk to which the Group may be exposed include:

- translation exposure of net income in foreign operations. The Group's income from operations is sensitive in particular to movements in the U.S. dollar (including currencies pegged to the U.S. dollar) and a wide range of other currencies from developed and emerging markets. Therefore a strong U.S. dollar and Chinese renminbi would generally have a negative impact on the Group's income from operations. Income from operations is also sensitive to movements in currencies from countries where the Group has little or no manufacturing/sourcing activity, such as the United Kingdom, Canada and a range of emerging markets such as India, Indonesia, Mexico, Thailand and Brazil;
- translation exposure of foreign-currency intercompany and external debt and deposits. The Group generally carries foreign-currency intercompany and external debt and deposits on the balance sheet of the Group's foreign operations. Movements in foreign currency rates may have an adverse impact on the value of such balance items when translated into euro;
- translation exposure of foreign-currency denominated equity invested in consolidated subsidiaries; and
- translation exposure to equity interests in non-functional-currency investments in associates and available-for-sale financial assets.

In the three month period ended 31 March 2016, the Group estimates that foreign currency exchange rate fluctuations (reflecting the impact of both translation and transaction exposure) had a negative impact on adjusted EBITA of approximately 300 basis points as compared to the three month period ended 31 March 2015, primarily as a result of devaluations of a number of currencies against the Euro, most notably in Latin America (including the Brazilian real and the Argentine peso). This impact included an estimated negative impact of approximately 170 basis points from underlying foreign exchange rate fluctuations (excluding measures taken in response to the foreign currency exchange rate movements) for the three month period ended 31 March 2016, as well as an estimated positive impact of approximately 130 basis points for non-recurring positive working capital revaluation in the three month period ended 31 March 2015. The Group does not expect the latter impact to recur for the remainder of 2016, as the majority of balance sheet positions are hedged as a result of changes to the Group's hedging policies implemented in the course of 2015.

*Transaction Risk.* Transaction risks arise when the Group's subsidiaries conduct transactions in currencies other than their own functional currency. The Group is therefore exposed to foreign currency risks in connection with scheduled payments and receipts in multiple currencies. Examples of transaction risk to which the Group may be exposed include transaction exposures related to sales and purchases in currencies other than the functional currency and the on-balance-sheet receivables/payables resulting from such transactions.

It is the Group's policy to reduce the year-on-year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases, using forwards and currency options. The Group's policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or will be hedged as there may be regulatory barriers or prohibitive hedging cost preventing the Group from effectively or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for transaction exposures. The Group estimates that approximately 10% of its current foreign currency exposure will not be hedged. In addition, the Group's hedging strategies may be based on estimates for future transactions denominated in a foreign currency or other assumptions, and such estimates and assumptions may prove to be incorrect or inaccurate in the future.



In addition, the movement of foreign currency exchange rates may also affect the Group's competitive position. Unlike certain of the Group's competitors which generate sales and incur costs within a specific geographic region, the Group's sourcing and manufacturing spend in certain currencies, in particular the U.S. dollar and Chinese renminbi, exceeds sales from these currencies. Accordingly, to the extent this currency exposure is not or not effectively hedged, an appreciation of those currencies may result in a relative increase in the Group's reported costs of goods sold as compared to competitors which incur costs and generate sales in the same currency. As a result, the Group may be forced to offer its products only at a comparatively higher price or to accept lower gross margins if foreign currency exchange rates develop unfavorably.

Any of the foregoing foreign currency exchange rate related risks may have a material adverse effect on the Group's business, results of operations and financial condition.

**48. *The Group is exposed to the risk of restricted access to debt funding.***

Negative economic and political developments and adverse business performance or outlook could affect the ability of the Group to raise or refinance debt in the bank markets or in the capital markets or could have a material adverse effect on the terms and conditions (including covenants) under which debt can be raised or renewed. This could result in increases in the cost of such borrowing and could have a material adverse effect on the Group's liquidity and ability to run its business.

The Company will enter into a credit agreement (the "**Credit Agreement**") establishing two term loan facilities in the amounts of €740 million and \$500 million (the "**Term Loan Facility**"), and a multi-currency revolving credit facility in a maximum amount of €500 million (the "**Revolving Credit Facility**"). The Credit Agreement requires the Group to maintain a net leverage ratio (ratio of net debt to EBITDA) of not more than 3.0 to 1.0, compliance with which could limit the Group's ability to incur indebtedness and finance future capital needs and pursue acquisitions and other business activities that may be in the Group's interest (see "Operating and Financial Review—Financing Structure Following the Offering"). A default under the Credit Agreement or other existing or future debt incurred could result in a cross-default or cross-acceleration, causing borrowers under other debt instruments that contain such provisions to become due and payable. The Group's assets and cash flow may not be sufficient to fully repay such borrowings in all circumstances.

If the Company has obtained a credit rating and the markets expect a downgrade by the rating agencies or if such a downgrade has actually taken place, it may adversely affect the availability, terms and conditions and cost of borrowing, which may have a material adverse effect on the Group's business, results of operations and financial condition.

**49. *The Group is exposed to interest rate risks.***

The Company expects to maintain a capital structure with debt leverage levels that allow it to pursue its growth objectives while maintaining its dividend policy. The Term Loan Facility and the Revolving Credit Facility bear interest at a variable rate of interest linked to the relevant applicable EURIBOR or LIBOR (see "Operating and Financial Review—Financing Structure Following the Offering"). The Group expects to fully draw the Term Loan Facility by the Settlement Date but does not expect to utilize the Revolving Credit Facility immediately. Adverse fluctuations and increases in interest rates, to the extent that they are not effectively hedged, could have a material adverse effect on the Group's business, results of operations and financial condition.

**50. *The Group may be adversely affected by regulatory restrictions on cross border payment flows or currency conversions.***

The Group operates in approximately 180 countries and supplies these markets from manufacturing operations mainly in the United States, Mexico, China and Europe. The supply chain from these manufacturing operations to the markets where the Group's products and services are sold requires the ability to make regular cash payments from these markets to the manufacturing operations. The Group operates a global network of bank accounts to centralize/pool cash and the Group provides intercompany funding to some foreign subsidiaries. The Group is experiencing regulatory cash payment/currency conversion restrictions in countries such as Egypt, Argentina and, to a lesser extent, in other emerging market countries. Such regulatory restrictions on foreign currency conversions or cross border payments may adversely affect the Group's ability to conduct its regular business and block the Group's unrestricted access to and use of its cash resources, which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**51. *The Group is exposed to counterparty/credit risk from customers and financial institutions.***

As part of its normal business operations, the Group extends credit to its customers and is exposed to the risk that trade receivables are not paid in full by customers. The Group is also exposed to counterparty risk

related to derivative contracts with banks, cash deposits at banks and receivable claims from insurance companies. In case of defaults, the Group may not be legally able to offset payment obligations against receivables. The provision for doubtful accounts involves significant judgement and review of individual receivables based on individual customer creditworthiness, current economic trends and analysis of historical bad debts on a portfolio basis. As of 31 March 2016, the Group has made a provision in its financial statements in an amount of approximately €124 million. Defaults by customers or financial counterparties may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

**52. *The Group is exposed to a number of different fiscal uncertainties which may have a significant impact on local tax results.***

The Group operates on a global basis and is therefore exposed to a number of different tax uncertainties which could result in double taxation, penalties and interest payments. These include uncertainties in respect of the transfer pricing of internal cross-border deliveries of goods and services and tax uncertainties related to the cost allocation with regard to head office expenses. If tax authorities impose significant additional tax liabilities as a result of transfer pricing adjustments, this may have a material adverse effect on the Group's financial condition and results of operations and may lead to double taxation. It is also possible that tax authorities in the countries in which the Group operates will introduce additional revenue raising measures. Those uncertainties may have a significant impact on local tax results, which in turn may adversely affect the Group's business, results of operations and financial condition.

Also, the Organization for Economic Co-operation and Development (the "OECD") is engaged in a project to equip governments with domestic and international instruments to address the double non-taxation and to ensure that profits are taxed where economic activities generating the profits are performed and where value is created, namely the anti-Base Erosion and Profit Shifting Project (BEPS). In this context, the OECD has developed 15 actions, the effects of which may force the Group to alter its business strategy, which may have a material adverse effect on the Group's business. The following actions are in particular relevant to the Group.

The actions contain transfer pricing guidance to ensure that transfer pricing outcomes are in line with value creation in relation to intangibles (including hard-to-value ones) to risks and capital, and to other high-risk transactions (actions 8, 9 and 10) as well as new rules as to the required transfer pricing documentation and reporting (action 13). The actions also contain new guidance on the limitation of the deductibility of interest (action 4) and recognition of taxable presence in the form of a permanent establishment (action 7). On 5 October 2015, the OECD published final reports regarding these actions. The G20/OECD will undertake further work in 2016 on transfer pricing in the context of these actions.

Given that the Group envisages funding several of the Group Companies through (intragroup) loan financing, new rules in the spirit of action 4 (such as the rules proposed by the European Commission in the draft anti avoidance directive) could further limit the tax deduction of interest expenses. Also new U.S. proposed regulations—if finalized in their current form (or possibly in broader form)—could re-characterize certain intragroup debt as equity for U.S. federal income tax purposes. If these regulations were to apply to the Group, they may significantly limit the tax deduction of interest expenses or result in dividend income to Group Companies.

In addition, the Group's direct export business models, through which a material amount of the Group's sales are realized, are by their nature prone to the challenge by tax authorities in the countries where the sales are made. In such case the tax authorities may take the position that the Group's sales activities give rise to a taxable presence (permanent establishment) in such country. Such challenges may increase if the threshold for the existence of a taxable presence (permanent establishment) in a country is lowered.

The Group's current transfer pricing policy is coherent with the transfer pricing rules and principles laid down in the final reports for actions 8, 9 and 10. However, given the size of the intangibles created and owned by the Group in combination with material transactions that include intangibles, the implementation of the actions 8, 9 and 10 may entail significant risks for the Group. The exact impact on the Group's resources is not clear at the date of this Prospectus.

Action 13 will increase the overall compliance burden for the Group and may lead to more questions on the transfer pricing methods applied by the Group. Any disparities between the interpretation of transfer pricing principles by the various tax authorities involved could have a material impact on the Group's transfer pricing and tax position. Furthermore, there has in recent years been an increased interest by governments, political parties, the media and the public in the tax affairs of companies. This increased interest may also apply to the Group's tax policy or the tax affairs of the Group's clients. Changes as to what is perceived by governments or by the public to be appropriate, ethical or sustainable behavior in relation to tax may lead to a situation where the Group's tax policy is in line with all applicable tax laws, rules and regulations, but nevertheless comes under public scrutiny. These two developments may lead to reputational damage and damage to the brand used by the Group.



**53. *The Group may be subject to risk of impairment of goodwill of acquired businesses.***

The Group has acquired several companies and businesses in the past in particular to strengthen its professional luminaires and systems businesses as well as its consumer luminaires business. Acquisitions often lead to goodwill being recognized in the Group's balance sheet. Goodwill represents the consideration paid for the acquired businesses in excess of the fair value of identifiable assets and liabilities as of the acquisition date. Goodwill and other acquired intangible assets expected to contribute indefinitely to the Group's cash flows are not amortized, but are evaluated for impairment by the Group's management at least annually, as well as whenever there are events or changes in circumstances which suggest that the carrying amount may not be recoverable. Goodwill recorded on the Group's balance sheet amounted to €1,844 million as of 31 December 2015 and €1,781 million as of 31 March 2016. BG Professional and BG Home reported limited headroom in the 2015 annual impairment test and therefore adverse changes could cause an impairment loss to be recognized. See Note E.12 to Combined Financial Statements for further information. If the value of goodwill or other acquired intangible assets is impaired, this may have a material adverse effect on the Group's results of operations and equity.

**54. *The Group has pension plans and retiree medical benefit plans in a number of countries. The funded status and the cost of maintaining these plans are influenced by movements in financial market and demographic developments and may adversely affect the Group's financial condition.***

Following the Separation, certain defined-benefit plans, defined-contribution plans and retiree medical benefit plans were allocated to the Group. For more information see "Separation—Allocation of Assets and Liabilities—Pensions" and "Actual pension liabilities and costs following the Separation may differ significantly from those set out in the Combined Financial Statements" above. The retiree medical benefit plans are not funded and some of the defined-benefit plans are not funded or not fully funded.

For unfunded plans (*i.e.*, retiree medical benefit plans and some defined-benefit plans) the Group pays benefits to former employees from its operating cash flow. Changes in key assumptions (*e.g.*, longevity, cost of medical care) may result in higher or extended cash payments and an adverse impact on the Group's pension liabilities, its results of operations and financial condition.

For defined-benefit plans that are (partially) funded, the Group may be required to provide additional cash funding from time to time. The accounting for retiree medical benefit plans and defined-benefit pension plans requires management to make estimates on discount rates, inflation, longevity and expected rates of compensation. Movements (*e.g.*, due to the movements of financial markets) in these assumptions can have a significant impact on the defined benefit obligations, pension cost and cash contributions. A negative performance of the financial markets may have a material impact on the value of defined-benefit plan assets and create or increase the need to provide immediate or delayed cash funding.

The Group may partially or wholly settle defined-benefit obligations from time to time at a cost that exceeds the accounting valuation of the defined-benefit obligations. Such settlement will require the Group to provide additional cash funding and triggers one-off settlement charges in the earnings of the Group.

Management has assessed the accounting treatment (defined-benefit or defined-contribution) for each post-retirement benefit plan on the basis of applicable accounting rules, existing legal and regulatory requirements, funding agreements and any other available facts or circumstances. Future changes in legislation or regulations, accounting rules or other facts or circumstances may require the Group to reassess this accounting classification and subsequently recognize or de-recognize defined-benefit obligations in its balance sheet. For example, the Philips Pensionskasse in Germany of which the Group is a co-sponsor is currently accounted for as a defined contribution plan. Such re-classification of accounting treatment may have significant one-off and continuing adverse impact on the Group's results from operations and financial condition, potentially with retrospective application on financial reporting from prior years.

**Risks Relating to the Ordinary Shares**

**55. *The payment of future dividends will depend on the Group's results of operations and financial condition, as well as on the Group's operating subsidiaries' distributions to the Company.***

The Company is a holding company with no material, direct business operations. The principal assets of the Company are the equity interests it holds in its operating subsidiaries. As a result, the Company is dependent on the results of operations from these subsidiaries to pay dividends. The Company may only make distributions to its shareholders insofar as the Company's equity exceeds the sum of the paid-in and called-up share capital increased by the reserves as required to be maintained by Dutch law or by the Articles of Association. The Board of Management may furthermore determine, subject to the approval of the Supervisory Board, that any amount out of the profit remaining after any distribution on preference shares in the share capital of the Company with a

nominal value of €0.01 each (“**Preference Shares**”), if any, will be added to the reserves. The remaining profit amount will be at the disposal of the General Meeting, which may resolve to carry it to the reserves or to distribute it among the holders of Ordinary Shares. The Board of Management may resolve, subject to the approval of the Supervisory Board, to make interim distributions to shareholders. The General Meeting may also resolve to make an interim distribution on the proposal of the Board of Management, subject to the approval of the Supervisory Board. The Company’s ability to pay dividends is determined based on its unconsolidated financial statements in accordance with IFRS. There can be no assurance that any dividends will be paid or that, if paid, they will correspond to the Company’s dividend policy. In addition, the Company has not established a share buyback program and there can be no assurance that such program will be established in the future.

**56. *Future issuances of Ordinary Shares or debt or equity securities convertible into Ordinary Shares by the Company, or future sales of a substantial number of Ordinary Shares by Royal Philips or the perception thereof, may adversely affect the market price of the Ordinary Shares, and any future issuance of Ordinary Shares may dilute investors’ shareholdings. Although the Company and Royal Philips are expected to agree in the Underwriting Agreement to certain restrictions on issuing, selling or transferring Ordinary Shares for a period of 180 days after the Settlement Date, the Joint Global Coordinators may, in their sole discretion and at any time, waive such restrictions.***

Prior to or on the Settlement Date, the General Meeting will designate the Board of Management for a period that ends 18 months following the Settlement Date, as the corporate body authorized to, subject to approval of the Supervisory Board, issue Ordinary Shares or grant rights to subscribe for Ordinary Shares and to restrict or exclude pre-emptive rights in respect thereof. Pursuant to this designation, the Board of Management may, subject to approval of the Supervisory Board, resolve to issue Ordinary Shares or grant rights to subscribe for Ordinary Shares (i) up to a maximum of 10% of the total number of Ordinary Shares issued and outstanding on the Settlement Date plus (ii) an additional 10% of the total number of Ordinary Shares issued and outstanding on the Settlement Date in connection with or on the occasion of mergers, acquisitions and strategic alliances. Such authorization may from time to time be extended by a resolution of the General Meeting. See also “Description of Share Capital—Issuance of Shares”. Pursuant to this designation, the Board of Management may resolve to issue Ordinary Shares or grant rights to subscribe for Ordinary Shares up to a maximum of 10% of the number of Ordinary Shares issued as of the Settlement Date and to limit or exclude pre-emptive rights in relation thereto.

The Group may in the future seek to raise capital through public or private debt or equity financings by issuing additional Ordinary Shares, debt or equity securities convertible into Ordinary Shares or rights to acquire these securities and exclude the pre-emptive rights pertaining to the then outstanding Ordinary Shares. In addition, the Group may in the future seek to issue additional Ordinary Shares as consideration for or otherwise in connection with the acquisition of new businesses. Furthermore, the Group may issue new Ordinary Shares in the context of any new employment arrangement for involving employees in the capital of the Company. The issuance of any additional Ordinary Shares may dilute an investor’s shareholding interest in the Company. Furthermore, any additional debt or equity financing the Group may need may not be available on terms favorable to the Group or at all, which may adversely affect the Group’s future plans and the market price of the Ordinary Shares. Any additional offering or issuance of Ordinary Shares by the Company or the perception that an offering or issuance may occur may also have a negative impact on the market price of the Ordinary Shares and may increase the volatility in the trading price of the Ordinary Shares.

The market price of the Ordinary Shares may decline if substantial numbers of Ordinary Shares are sold by the Selling Shareholder in the public market or if there is a perception that such sales could occur. Furthermore, a sale of Shares by any or all of the members of the Board of Management could be considered as a lack of confidence in the performance and prospects of the Group and may cause the market price of the Shares to decline. Although the Selling Shareholder and the Company are expected to agree with the Underwriters, pursuant to the underwriting agreement expected to be dated on or about 26 May 2016 among the Company, the Selling Shareholder and the Underwriters (the “**Underwriting Agreement**”), to restrictions on their ability to issue, sell or transfer Ordinary Shares for a period of 180 days after the Settlement Date, the Joint Global Coordinators may, in their sole discretion and at any time, waive such restrictions on issuances, sales or transfers. See “Plan of Distribution—Lock-up Arrangements”.

**57.  *Holders of Ordinary Shares outside the Netherlands may suffer dilution if they are unable to exercise pre-emptive rights in future offerings.***

In the event of an increase in the Company’s Share capital, holders of Ordinary Shares are generally entitled to full pre-emptive rights unless these rights are limited or excluded either by virtue of Dutch Law, a resolution of the General Meeting on the proposal of the Board of Management which has been approved by the Supervisory Board, or by a resolution of the Board of Management subject to the approval of the Supervisory

Board (if the Board of Management has been designated by the General Meeting or the Articles of Association for this purpose). However, certain holders of Ordinary Shares outside the Netherlands may not be able to exercise pre-emptive rights, and therefore suffer dilution, unless local securities laws have been complied with.

In particular, U.S. holders of Ordinary Shares may not be able to exercise their pre-emptive rights or participate in a rights offering, as the case may be, unless a registration statement under the U.S. Securities Act, is effective with respect to such rights or an exemption from the registration requirements is available. The Group intends to evaluate at the time of any issue of Ordinary Shares subject to pre-emptive rights or in a rights offering, as the case may be, the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits to it of enabling the exercise of U.S. holders of their pre-emptive rights to Ordinary Shares or their participation in a rights offering, as the case may be, and any other factors considered appropriate at the time and then to make a decision as to whether to file such a registration statement. The Group cannot assure investors that any registration statement would be filed as to enable the exercise of such holders' pre-emptive rights or participation in a rights offering.

***58. Provisions in the Articles of Association and in contracts concluded by the Group may delay, deter or prevent takeover attempts that may be favorable to the holders of Ordinary Shares.***

The Articles of Association contain protection provisions that may have the effect of preventing, discouraging or delaying a change of control. Provisions of the Articles of Association could make it difficult for the Company's Shareholders to change, or prevent its Shareholders from changing, the composition of the Board of Management and Supervisory Board. The Articles of Association provide that members of the Board of Management and members of the Supervisory Board can be appointed only by the General Meeting upon a nomination by the Supervisory Board. The Supervisory Board may resolve that the nomination will have a binding nature.

In relation to a removal of a member of the Board Management or the Supervisory Board, other than pursuant to a resolution proposed by the Supervisory Board, such a resolution of the General Meeting would require an absolute majority of the votes cast representing more than one-third of the issued Share capital. The Articles of Association impose various procedural and other requirements, which could make it difficult for Shareholders to effect certain corporate actions. These provisions may substantially impede the ability of the Shareholders to benefit from a change in control and, as a result, may materially adversely affect the market price of the Ordinary Shares.

Prior to or on the Settlement Date, the General Meeting will designate the Board of Management for a period that ends 18 months following the Settlement Date, as the corporate body authorized to, subject to approval of the Supervisory Board, issue Ordinary Shares or grant rights to subscribe for Ordinary Shares and to restrict or exclude pre-emptive rights in respect thereof. Pursuant to this designation, the Board of Management may, subject to approval of the Supervisory Board, resolve to issue Ordinary Shares or grant rights to subscribe for Ordinary Shares (i) up to a maximum of 10% of the total number of Ordinary Shares issued and outstanding on the Settlement Date plus (ii) an additional 10% of the total number of Ordinary Shares issued and outstanding on the Settlement Date in connection with or on the occasion of mergers and acquisitions and strategic alliances. Such authorization may from time to time be extended by a resolution of the General Meeting. See also "Description of Share Capital—Issuance of Shares". An issue of Ordinary Shares may make it more difficult for a Shareholder to obtain control over the General Meeting.

Prior to or on the Settlement Date, Stichting Continuïteit Philips Lighting (the "Foundation") will be granted a call option by the Company to acquire Preference Shares with a nominal value of €0.01 each. The Foundation may not exercise the call option without the prior consent of the Selling Shareholder for so long as the Selling Shareholder's (direct or indirect) holding of Ordinary Shares represents 30% or more of the issued and outstanding Ordinary Shares. On each exercise of the call option, the Foundation is entitled to acquire from the Company Preference Shares up to a maximum corresponding with 100% of the issued and outstanding share capital of the Company excluding the Preference Shares in the share capital of the Company as outstanding immediately prior to the exercise of the call option, less one Ordinary Share, from which maximum any Preference Shares already placed with the Foundation at the time of the exercise of the call option must be deducted. The Foundation may exercise its option right repeatedly, each time up to the aforementioned maximum. See "Description of Share Capital—Response Measures". The issuance of Preference Shares in this manner would cause substantial dilution to the voting power of any Shareholder, including a Shareholder attempting to obtain control over the General Meeting, and may therefore have the effect of preventing, discouraging or delaying a change of control that might otherwise be in the interest of Shareholders, or have otherwise resulted in an opportunity for Shareholders to sell the Ordinary Shares at a premium to the then prevailing market price. This anti-takeover measure may have an adverse effect on the market price of the Ordinary Shares.

## **Risks Relating to the Offering and Offer Shares**

***59. The Ordinary Shares have not been publicly traded prior to the Offering, and there is no guarantee that an active and liquid market for the Ordinary Shares will develop.***

Prior to the Offering, there has been no public trading market for the Ordinary Shares. There can be no assurance that an active trading market for the Ordinary Shares will develop after the Offering or, if it does develop, that it will be sustained or liquid. If such market fails to develop or be sustained, this may negatively affect the liquidity and price of the Ordinary Shares, as well as increase their price volatility, which may adversely affect the value of an investment in the Ordinary Shares.

***60. The Company's Ordinary Share price may fluctuate significantly, and investors may lose all or part of their investment.***

The Offer Price may not be indicative for the market price of the Ordinary Shares after the Offering has been completed. The market price of the Ordinary Shares may also fluctuate substantially due to various factors, some of which could be specific to the Group and its operations and some of which could be related to the industry in which the Group operates or equity markets generally. As a result of these and other factors, the Ordinary Shares may trade at prices significantly below the Offer Price. The Company cannot guarantee that the market price of the Ordinary Shares will not decline, and the Ordinary Shares may trade at prices significantly below the Offer Price, regardless of the Group's actual operating performance.

***61. If closing of the Offering does not take place, purchases of the Ordinary Shares will be disregarded and transactions effected in the Ordinary Shares will be annulled.***

Application has been made to list the Ordinary Shares on Euronext Amsterdam under the symbol "LIGHT". The Company expects that the Ordinary Shares will be admitted to listing and that trading in the Ordinary Shares will commence prior to the Settlement Date on the First Trading Date on an "as-if-and-when-delivered" basis. The closing of the Offering may not take place on the Settlement Date or at all if certain conditions of events referred to in Underwriting Agreement are not satisfied or waived or occur on or prior to such date (see "Plan of Distribution"). Trading in the Ordinary Shares before the closing of the Offering will take place subject to the condition that, if closing of the Offering does not take place, the Offering will be withdrawn, all applications for the Ordinary Shares will be disregarded, any allotments made will be deemed not to have been made, any application payments made will be returned without interest or other compensation and transactions on Euronext Amsterdam will be annulled. All dealings in the Ordinary Shares prior to settlement and delivery are at the sole risk of the parties concerned. The Company, the Selling Shareholder, the Listing and Paying Agent, the Underwriters, the Financial Adviser and Euronext Amsterdam N.V. do not accept any responsibility or liability for any loss incurred by any person as a result of a withdrawal of the Offering or the related annulment of any transaction on Euronext Amsterdam.



## IMPORTANT INFORMATION

### General

The content of this Prospectus is not to be considered or interpreted as legal, financial or tax advice. It is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the members of its Supervisory Board and Board of Management, the Selling Shareholder or any of the Underwriters, the Financial Adviser or any of their respective representatives that any recipient of this Prospectus should subscribe for or purchase any Offer Shares. Prior to making any decision whether to purchase the Offer Shares, prospective investors should read this Prospectus. Investors should ensure that they read the whole of this Prospectus and not just rely on key information or information summarized within it. Each prospective investor should consult his or her own stockbroker, bank manager, lawyer, auditor or other financial, legal or tax advisers before making any investment decision with regard to the Offer Shares, to among other things consider such investment decision in light of his or her personal circumstances and in order to determine whether or not such prospective investor is eligible to subscribe for the Offer Shares. In making an investment decision, prospective investors must rely on their own examination of the Company, the Shares and the terms of the Offering, including the merits and risks involved.

Prospective investors should rely only on the information contained in this Prospectus, the Pricing Statement and any supplement to this Prospectus within the meaning of Section 5:23 FMSA. The Company does not undertake to update this Prospectus, unless required pursuant to Section 5:23 FMSA, and therefore potential investors should not assume that the information in this Prospectus is accurate as of any date other than the date of this Prospectus. No person is or has been authorized to give any information or to make any representation in connection with the Offering, other than as contained in this Prospectus, and, if given or made, any other such information or representations must not be relied upon as having been authorized by the Company, the members of the Board of Management or Supervisory Board, the Selling Shareholder, the Listing and Paying Agent, any of the Underwriters, the Financial Adviser or any of their respective representatives. The delivery of this Prospectus at any time after the date hereof will not, under any circumstances, create any implication that there has been no change in the Group's affairs since the date hereof or that the information set forth in this Prospectus is correct as of any time since its date.

No representation or warranty, express or implied, is made or given by the Listing and Paying Agent or on behalf of the Underwriters, the Financial Adviser or any of their affiliates or any of their respective directors, officers or employees or any other person, as to the accuracy, completeness or fairness of the information or opinions contained in this Prospectus, or incorporated by reference herein, and nothing in this Prospectus, or incorporated by reference herein, is, or shall be relied upon as, a promise or representation by the Listing or Paying Agent, the Underwriters or the Financial Adviser or any of their respective affiliates as to the past or future. None of the Listing or Paying Agent and the Underwriters accepts any responsibility whatsoever for the contents of this Prospectus or for any other statements made or purported to be made by either itself or on its behalf in connection with the Company, the Selling Shareholder, the Group, the Offering or the Shares. Accordingly, the Listing or Paying Agent and the Underwriters disclaim, to the fullest extent permitted by applicable law, all and any liability, whether arising in tort or contract or which they might otherwise be found to have in respect of this Prospectus and/or any such statement.

Although the Underwriters are party to various agreements pertaining to the Offering and each of the Underwriters has or might enter into a financing arrangement with the Company and/or the Selling Shareholder or any of their affiliates, this should not be considered as a recommendation by any of them to invest in the Offer Shares.

The distribution of this Prospectus and the Offering may, in certain jurisdictions, be restricted by law, and this Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. This Prospectus does not constitute an offer of, or an invitation to, purchase any Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. The Company, the Selling Shareholder and the Underwriters require persons into whose possession this Prospectus comes to inform themselves of and observe all such restrictions. None of the Company, the Selling Shareholder or the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of Offer Shares, of any such restrictions. The Company, the Selling Shareholder and the Underwriters reserve the right in their own absolute discretion to reject any offer to purchase Offer Shares that the Company, the Selling Shareholder, the Underwriters or their respective agents believe may give rise to a breach or violation of any laws, rules or regulations.

## **Responsibility Statement**

This Prospectus is made available by the Company. The Company accepts responsibility for the information contained in this Prospectus. In addition, the Selling Shareholder accepts responsibility for the information contained in “Separation—Reasons for the Separation” and “Existing Shareholders and Related Party Transactions—Existing Shareholders”. Each of the Company and the Selling Shareholder declares that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

## **Presentation of Financial Information**

### ***IFRS information***

This Prospectus contains the Combined Financial Statements of the Group as of and for the years ended 31 December 2015, 2014, and 2013 and the accompanying notes. The Combined Financial Statements have been prepared in accordance with IFRS. All standards and interpretations issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee effective as of 31 December 2015 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. The Group has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by the Group also comply with IFRS as issued by the IASB. References to “IFRS” should be construed as references to International Financial Reporting Standards as endorsed by the EU and as issued by the IASB. The Combined Financial Statements have been prepared based on “carve-out” financial information from the consolidated financial statements of Royal Philips for the purpose of presenting the financial position, results of operations and cash flow of the Group on a stand-alone basis. The Combined Financial Statements have been prepared on a going-concern basis. The Combined Financial Statements have been audited by KPMG Accountants N.V. (“KPMG”) as set forth in their report thereon included in the Combined Financial Statements.

This Prospectus also contains the condensed combined interim financial statements of the Group for the three-month periods ended 31 March 2016 and 2015 and the accompanying notes (the “**Condensed Combined Interim Financial Statements**”). The Condensed Combined Interim Financial Statements have been prepared on the basis of IAS 34. The Condensed Combined Interim Financial Statements do not include all of the information required for the Combined Financial Statements and should be read in conjunction with the Combined Financial Statements. Ernst & Young Accountants LLP (“EY”) has issued a review report of the Condensed Combined Interim Financial Statements as of and for the three month period ended 31 March 2016 as set forth in their report thereon included in the Condensed Combined Interim Financial Statements.

For a discussion of the presentation of the Group’s historical financial information included in this Prospectus, see “Operating and Financial Review—Basis of Presentation of Financial Statements”.

### ***Non-IFRS financial measures***

Certain parts of this Prospectus 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 not measures of financial performance under IFRS, but 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. Further, they may not be indicative of the Group’s historical operating results, nor are such measures meant to be predictive of the Group’s future results. These non-IFRS measures are presented in this Prospectus because management considers them an important supplemental measure of the Group’s performance and believes that they and similar measures are widely used in the industry in which the Group operates as a means of evaluating a company’s operating performance and liquidity.

However, not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to measures used by other companies under the same or similar names. Accordingly, undue reliance should not be placed on the non-IFRS financial measures contained in this Prospectus and they should not be considered as a substitute for income from operations, net income, net cash provided by operating activities or other financial measures computed in accordance with IFRS.

The presentation of the non-IFRS measures in this Prospectus should not be construed as an implication that the Group’s future results will be unaffected by exceptional or non-recurring items. See also “Operating and Financial Review—Non-IFRS Financial Measures”.



***Rounding and negative amounts***

Certain figures in this Prospectus, including financial data, have been rounded. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures which precede them.

In preparing the Condensed Combined Interim Financial Statements and the Combined Financial Statements, most numerical figures are presented in thousands of euros. For the convenience of the reader of this Prospectus, certain numerical figures in this Prospectus are rounded to the nearest one million. As a result of this rounding, certain numerical figures presented herein may vary slightly from the corresponding numerical figures presented in the Condensed Combined Interim Financial Statements and the Combined Financial Statements.

The percentages (as a percentage of revenues or costs and period-on-period percentage changes) presented in the textual financial disclosure in this Prospectus are derived directly from the financial information contained in the Condensed Combined Interim Financial Statements and the Combined Financial Statements. The computation of such percentages may be computed on the numerical figures expressed in thousands of euros in the Condensed Combined Interim Financial Statements and the Combined Financial Statements. Therefore, such percentages are not calculated on the basis of the financial information in the textual disclosure that has been subjected to rounding adjustments in this Prospectus.

In tables, negative amounts are shown between brackets. Otherwise, negative amounts may also be shown by “-” or “negative” before the amount.

***Currency***

All references in this Prospectus to “euro”, “EUR” or “€” are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty on the functioning of the European Community, as amended from time to time. All references to “U.S. dollars”, “USD” or “\$” are to the lawful currency of the United States.

***Exchange rates***

The Combined Financial Statements and Condensed Combined Interim Financial Statements have been prepared by the Group in euros.

The table below sets forth, for the annual periods indicated, information regarding the period high, low, average and period end noon buying rates in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for U.S. dollar per euro as published by Bloomberg (“noon buying rates”). The average is computed calculated by using the average of the noon buying rates on the last day of each month during the period.

<b>Year</b>	<b>U.S. dollar (High)</b>	<b>U.S. dollar (Low)</b>	<b>U.S. dollar (Average)</b>	<b>U.S. dollar (Period end)</b>
2011 .....	1.2926	1.4875	1.3931	1.2973
2012 .....	1.2062	1.3463	1.2859	1.3186
2013 .....	1.2774	1.3816	1.3281	1.3779
2014 .....	1.2101	1.3927	1.3210	1.2101
2015 .....	1.2015	1.0524	1.1032	1.0859
2016 (through 6 May 2016) .....	1.1516	1.0743	1.1133	1.1421

The table below sets forth, for the monthly periods indicated, information regarding the period high, low, average and period end noon buying rates. The average is computed calculated by using the average of the noon buying rates on the last day of each month during the period.

<b>Month</b>	<b>U.S. dollar (High)</b>	<b>U.S. dollar (Low)</b>	<b>U.S. dollar (Average)</b>	<b>U.S. dollar (Period end)</b>
November 2015 .....	1.1026	1.0562	1.0727	1.0562
December 2015 .....	1.1025	1.0573	1.0889	1.0859
January 2016 .....	1.0964	1.0743	1.0855	1.0832
February 2016 .....	1.1362	1.0868	1.1092	1.0868
March 2016 .....	1.1390	1.0845	1.1134	1.1390
April 2016 .....	1.1441	1.1239	1.1346	1.1441
May 2016 (through 6 May 2016) .....	1.1516	1.1404	1.1467	1.1421

The noon buying rate on 6 May 2016 (the latest practicable date before publication of this Prospectus) was €1.00 = \$1.1421.

The exchange rate information above is solely provided for convenience purposes. No representation is made that the euro amounts have been or could have been converted into U.S. dollars, or vice versa, at the exchange rates indicated above or at any other rate.

### **Market and Industry Information**

All references to market share, market data, industry statistics and industry forecasts in this Prospectus 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. Statements based on the Company's own proprietary information, insights, opinions or estimates contain words such as "the Group believes", "the Group expects", "the Group estimates", "the Group sees", "the Group perceives" and as such do not purport to cite, refer to or summarize any third-party or independent source and should not be so read.

Industry publications generally state that their information is obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. Where third-party information has been sourced in this Prospectus, the source of such information has been identified. Third-party reports referenced in this Prospectus include the BCG Report. Unless indicated otherwise, numbers included in this Prospectus in reference of the lighting industry have been derived from the BCG Report.

The information in this Prospectus that has been sourced from third parties has been accurately reproduced with reference to these sources in the relevant paragraphs and, as far as the Group is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

In this Prospectus, the Group makes certain statements regarding the characteristics of the lighting market as well as its competitive and market position. The Group believes these statements to be true, based on market data and industry statistics, but the Group has not independently verified the information. The Group cannot guarantee that a third party using different methods to assemble, analyze or compute market data or public disclosure from competitors would obtain or generate the same results. In addition, the Group's competitors may define their markets and their own relative positions in these markets differently than the Group does and may also define various components of their business and operating results in a manner which makes such figures non-comparable with the Group's.

### **Supplements**

If a significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the Offer Shares, arises or is noted between the date of this Prospectus and the later of the end of the Offering Period and the start of trading of the Offer Shares on Euronext Amsterdam, a supplement to this Prospectus is required. Such a supplement will be subject to approval by the AFM in accordance with Section 5:23 FMSA and will be made public in accordance with the relevant provisions under the FMSA. The summary shall also be supplemented, if necessary to take into account the new information included in the supplement.

Investors who have already agreed to purchase or subscribe for the Offer Shares before the supplement is published shall have the right, exercisable within two business days following the publication of a supplement, to withdraw their acceptances. Investors are not allowed to withdraw their acceptance in any other circumstances.

Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus. Any statement so modified or superseded shall, except as so modified or superseded, no longer constitute a part of this Prospectus. For the avoidance of doubt, references in this paragraph to any supplement being published by the Company do not include the Pricing Statement.

### **Notice to Investors**

The distribution of this Prospectus and the offer, acceptance, delivery, transfer, exercise, purchase of, subscription for, or trade in the Offer Shares may, in certain jurisdictions other than the Netherlands, including, but not limited to, the United States, be restricted by law. Persons in possession of this Prospectus are required to inform themselves about, and to observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus may not be used for, or in connection with, and does not constitute, an offer to sell, or an invitation to purchase, any of the Offer Shares in

any jurisdiction in which such offer or invitation is not authorized or would be unlawful. Neither this Prospectus, nor any related materials, may be distributed or transmitted to, or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws or regulations.

None of the Company, the members of the Board of Management or Supervisory Board, the Selling Shareholder, any of the Underwriters, the Financial Adviser or any of their respective representatives, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

Investors who purchase Offer Shares will be deemed to have acknowledged that: (i) they have not relied on the Listing and Paying Agent or any of the Underwriters or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this Prospectus, and that no person has been authorized to give any information or to make any representation concerning the Company or its subsidiaries, the Selling Shareholder or the Offer Shares (other than as contained in this Prospectus) and, that if given or made, any such other information or representation has not been relied upon as having been authorized by the Company, the Selling Shareholder, the Listing and Paying Agent or any of the Underwriters.

**EXCEPT AS OTHERWISE SET OUT IN THIS PROSPECTUS, THE OFFERING DESCRIBED IN THIS PROSPECTUS IS NOT BEING MADE TO INVESTORS IN THE UNITED STATES, CANADA, AUSTRALIA OR JAPAN.**

This Prospectus does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to acquire, Offer Shares in any jurisdiction in which such an offer or solicitation is unlawful or would result in the Company becoming subject to public company reporting obligations outside the Netherlands.

The distribution of this Prospectus, and the offer or sale of Offer Shares, is restricted by law in certain jurisdictions. This Prospectus may only be used where it is legal to offer, solicit offers to purchase or sell Offer Shares. Persons who obtain this Prospectus must inform themselves about and observe all such restrictions. None of the Company, the Selling Shareholder or the Underwriters accepts any legal responsibility for any violation by any person, whether or not a prospective purchaser of Shares, of any such restrictions. The Company, the Selling Shareholder and the Underwriters reserve the right in their own absolute discretion to reject any offer to purchase Shares that the Company, the Selling Shareholder, the Underwriters or their respective agents believe may give rise to a breach or violation of any laws, rules or regulations.

No action has been or will be taken to permit a public offer or sale of Offer Shares, or the possession or distribution of this Prospectus or any other material in relation to the Offering, in any jurisdiction outside the Netherlands where action may be required for such purpose. Accordingly, neither this Prospectus nor any advertisement or any other related material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. See “Selling and Transfer Restrictions”. Subject to certain exceptions, this Prospectus should not be forwarded or transmitted in or into Australia, Canada or Japan.

#### **Notice to Prospective Investors in the United States**

The Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and are being offered and sold: (i) in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A; and (ii) outside the United States in compliance with Regulation S. Prospective purchasers are hereby notified that sellers of Offer Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. See “Selling and transfer restrictions”.

**THE OFFER SHARES HAVE NOT BEEN RECOMMENDED BY ANY U.S. FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.**

#### **Notice to Prospective Investors in Canada**

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration

Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

### **Enforcement of Civil Liabilities**

The ability of Shareholders in certain countries other than the Netherlands, in particular in the United States, to bring an action against the Company may be limited under law. The Company is incorporated in the Netherlands and has its statutory seat (*statutaire zetel*) in Eindhoven, the Netherlands.

All of the members of the Board of Management and most members of the Supervisory Board are residents of countries other than the United States. All or a substantial proportion of the assets of these individuals are located outside the United States. A significant portion of the Group's assets are located outside of the United States. As a result, it may be impossible or difficult for investors to effect service of process within the United States upon such persons or the Company or to enforce against them in U.S. courts a judgement obtained in such courts. In addition, there is doubt as to the enforceability, in the Netherlands, of original actions or actions for enforcement based on the federal or state securities laws of the United States or judgements of U.S. courts, including judgements based on the civil liability provisions of the U.S. federal or state securities laws.

The United States and the Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgements, other than arbitration awards, in civil and commercial matters. Accordingly, a judgement rendered by a court in the United States will not be recognized and enforced by the Dutch courts. However, if a person has obtained a final and conclusive judgement for the payment of money rendered by a court in the United States which is enforceable in the United States and files his claim with the competent Dutch court, the Dutch court will generally give binding effect to such foreign judgement insofar as it finds that the jurisdiction of the U.S. court has been based on grounds which are internationally acceptable and that proper legal procedures have been observed and except to the extent that the foreign judgement contravenes Dutch public policy.

### **Forward-Looking Statements**

This Prospectus contains forward-looking statements that reflect the Group's intentions, beliefs or current expectations and projections about the Group's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies and opportunities and the markets in which the Group operates. Forward-looking statements involve all matters that are not historical facts. The Group has tried to identify forward-looking statements by using words as "may", "will", "would", "should", "expects", "intends", "estimates", "anticipates", "projects", "believes", "could", "hopes", "seeks", "plans", "aims", "objective", "potential", "goal", "strategy", "target", "continue", "annualized" and similar expressions or negatives thereof or other variations thereof or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Forward-looking statements may be found principally in sections in this Prospectus entitled "Risk Factors", "Dividend Policy", "Industry and Competition", "Business" and in particular in "Business—Outlook", "Operating and Financial Review" and also elsewhere.

The forward-looking statements are based on the Group's beliefs, assumptions and expectations regarding future events and trends that affect the Group's future performance, taking into account all information currently available to the Group, and are not guarantees of future performance. These beliefs, assumptions and expectations can change as a result of possible events or factors, not all of which are known to the Group or are within the Group's control. If a change occurs, the Group's business, financial condition, liquidity, results of operations, anticipated growth, strategies or opportunities may vary materially from those expressed in, or suggested by, these forward-looking statements. In addition, the forward-looking estimates and forecasts reproduced in the Prospectus from third-party reports could prove to be inaccurate. 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 facing the Company and its Group Companies. Such risks, uncertainties and other important factors include, but are not limited to those listed in the section entitled “Risk Factors”.

Investors or potential investors should not place undue reliance on the forward-looking statements in this Prospectus. The Group urges investors to read the sections of this Prospectus entitled “Risk Factors”, “Separation”, “Operating and Financial Review”, “Industry and Competition” and “Business” for a more complete discussion of the factors that could affect the Group’s future performance and the markets in which the Group operates. In light of the possible changes to the Group’s beliefs, assumptions and expectations, the forward-looking events described in this Prospectus may not occur. Additional risks currently not known to the Group or that the Group has not considered material as of the date of this Prospectus could also cause the forward-looking events discussed in this Prospectus not to occur. Forward-looking statements involve inherent risks and uncertainties and speak only as of the date they are made. 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.

### **Definitions**

This Prospectus is published in English only. Definitions used in this Prospectus are defined in “Definitions”.

### **Available Information**

For so long as any ordinary shares of the Company are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the “**U.S. Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act.

The Company is not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act.

### **Documents Incorporated by Reference**

The draft Articles of Association are incorporated in this Prospectus by reference and, as such, form part of this Prospectus. The draft Articles of Association (or copies thereof) may be obtained in electronic form free of charge from the Company’s website at [www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company).

### **No Incorporation of Website**

The contents of the Company’s website, including any websites accessible form hyperlinks on the Company’s website, do not form part of and are not incorporated by reference in this Prospectus.



## SEPARATION

### Reasons for the Separation

Royal Philips is a diversified health and well-being company, focused on improving people's lives through meaningful innovation in the areas of healthcare, consumer lifestyle and, until the Settlement Date, lighting. Headquartered in the Netherlands, Royal Philips, according to its annual accounts, posted sales of approximately €24.2 billion in 2015 and employed approximately 113,959 employees with sales and services in more than 100 countries. Royal Philips is listed on Euronext Amsterdam and the New York Stock Exchange.

On 23 September 2014, the Selling Shareholder announced that it was sharpening its strategic focus by separating Royal Philips into two leading companies focused on the healthtech and lighting markets. In a shareholder circular published by the Selling Shareholder on 19 March 2015, the Selling Shareholder stated that it believes that the healthtech and lighting business areas both offer attractive end-markets, but that each has unique customer needs, value drivers, industry trends and competitive dynamics. The Selling Shareholder therefore considered the time appropriate to establish two independent companies each focusing on their respective end-markets:

- Royal Philips, which aims to capture new healthtech opportunities by combining its existing healthcare and consumer lifestyle businesses; and
- the Group, which will continue Royal Philips' existing lighting business (except for Lumileds (as defined below) which will remain part of Royal Philips) and which aims to boost growth in LED lighting products, systems and services.

The Group believes, and the Selling Shareholder has informed the Group that it believes, that, as a pure-play lighting company following the Separation, the Group will be well positioned to deliver shareholder and corporate value for the following reasons:

- the Separation will allow the Group to focus on and more effectively pursue its own operating priorities and strategies, and will enable the management of the Group to concentrate all its efforts on the needs of the lighting business and pursue distinct opportunities for long-term growth and profitability;
- the Separation will permit the Group to concentrate its financial resources solely on its own operations, providing greater flexibility to invest capital in its business in a time and manner appropriate for its strategy and business needs and facilitating a more efficient allocation of capital;
- the Separation will create a separate lighting company with a simplified organizational structure and increased focus on the needs of the lighting business, facilitating faster decision-making and flexibility, and improving the ability of the Group to compete and enabling it to respond quickly to changing customer requirements and market dynamics;
- the Separation will create an independent equity structure that will allow the Group to have direct access to capital markets and facilitate the ability of the Group to capitalize on its growth opportunities and effect future investments (including acquisitions) utilizing its common stock if needed; and
- the Separation will facilitate incentive compensation arrangements for the Group's employees more directly tied to the performance of the Group's business, and may enhance employee hiring and retention by, among other things, improving the alignment of management and employee incentives with performance and growth objectives.

Although the Company believes that for these reasons, it will be well positioned to deliver shareholder and corporate value, the Company cannot assure that, following the Separation, any of the benefits described above or otherwise will be realized to the extent anticipated or even at all.

In 2015, Royal Philips started the process of transitioning its lighting business into a stand-alone holding company structure, separating it from the remaining Royal Philips business. The Separation was substantially completed on 1 February 2016, with the split of operations and functions, and the legal transfer of the assets and liabilities allocated to the Group, with the exception of certain delayed transfers as specified below. Due to the scale and variety of Royal Philips' businesses and its global footprint (among other factors), the separation process was complex and required effort and attention from employees throughout Royal Philips. For example, thousands of employees transitioned within the organization, and legacy programs going back decades, such as pensions, needed to be divided or shared between Royal Philips and the Group. Outside the organization, Royal Philips notified and established separation readiness among numerous customers, business partners and suppliers so that business relationships all over the world would continue following completion of the Separation. Administratively, the Separation involved legal reorganizations in various jurisdictions throughout the world. Separation management functions were created and are maintained to plan and execute the separation process in an orderly and timely fashion.

For more information on the risks involved in the separation process, see “Risk Factors—Risks Related to the Separation”.

### **Formation of the Group**

The Company was incorporated in the Netherlands on 1 February 2016 as Philips Lighting NewCo B.V., for the purpose of being the holding company of the Group. As part of the plan to separate the lighting business from the remainder of its businesses, Royal Philips transferred to Philips Lighting Holding B.V., which prior to the Settlement Date will become a direct subsidiary of the Company, the equity interests of certain entities that operate the lighting businesses, as well as assets and liabilities allocated to the Group, in accordance with and subject to the terms of the Separation Agreement described in further detail below.

The Company directly holds equity interests in 87 legal entities and indirectly holds equity interests in a further 116 legal entities, in 69 countries. Of the Group’s legal entities, 152 are wholly-owned, while equity interests in 51 legal entities are held together with third party shareholders, including eight joint ventures. In some countries, the Group operates branch offices or representative offices.

### **Separation Agreement**

On 1 February 2016 (the “**Separation Date**”), the Selling Shareholder and Philips Lighting Holding B.V. entered into the Separation Agreement and a set of ancillary agreements, together effectuating the Separation and providing a framework for the relationship between Royal Philips and the Group after the Separation. An addendum to the Separation Agreement was entered into on 4 May 2016, and references in this Prospectus to the Separation Agreement shall be interpreted as references to the Separation Agreement as amended pursuant to this addendum. The Separation Agreement and the ancillary agreements will be assigned to the Company prior to the Settlement Date. The Separation Agreement allocates assets, liabilities, employees and contracts of the former Royal Philips between the new Royal Philips and the Group. The transfer thereof has been effected at the level of the relevant group companies on or around 1 February 2016 (the “**Effective Time**”), except for a limited number of transfers which took place thereafter (*e.g.*, in India, Turkey and Mexico). At the date of this Prospectus, there are no material transfers outstanding, save for the transfer of the U.S. business of the Group which is scheduled to take place on or before the Settlement Date.

In addition to the Separation Agreement, other principal agreements entered into between Royal Philips and the Group include:

- a transitional services agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016 (“**TSA**”);
- an IT transitional services level agreement between Philips Electronics Nederland B.V. (“**Philips Electronics**”) and Philips Lighting B.V., dated 1 February 2016 (“**IT TSLA**”) and reverse IT TSLA between Philips Electronics and Philips Lighting B.V., dated 1 February 2016 (“**Reverse IT TSLA**”);
- an intellectual property transfer and license agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016 (“**IP TLA**”);
- the TMLA; and
- a company name license agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016 (“**CNLA**”).

While the Group believes that these agreements contribute to Group’s ability to function as a standalone organization operating the lighting business, the Group cannot assure that these agreements are on terms as favorable to the Group as would be comparable agreements with unaffiliated third parties.

The following paragraphs describe certain material provisions of the Separation Agreement and the ancillary agreements.

### **Allocation of Assets and Liabilities**

The Separation was guided by the principle that the Group will comprise substantially all of Royal Philips’ lighting business, related assets and liabilities, employees and contracts, as well as allocated activities from Royal Philips’ Innovation, Group & Services (“**IG&S**”) sector.

As part of the Separation, certain historical exposures and liabilities of Royal Philips have been allocated to each of Royal Philips and the Group, which are unrelated to their respective businesses. These include, in particular, liabilities relating to pensions and environmental issues, as further described below.

The assets and liabilities that have been allocated to the Group are reflected in the Company’s Combined Financial Statements and Condensed Combined Interim Financial Statements. In addition to the amounts reflected in this financial information, the Group will be responsible for certain other contingent liabilities related and unrelated to the lighting business after the Separation.

As part of the Separation, Royal Philips retained certain intercompany accounts payable to the Group (*i.e.*, payable by Philips Egypt LLC, a subsidiary of Royal Philips). The corresponding intercompany accounts receivable are reflected in the Condensed Combined Interim Balance Sheet as of 31 March 2016, for an amount of €36 million. Subsequently, pursuant to the aforementioned addendum to the Separation Agreement, the economic ownership of these intercompany accounts receivable was transferred by the Group to Royal Philips, against payment by Royal Philips to the Group of their nominal value, such payment to be made prior to the Settlement Date.

The assets and liabilities that have been allocated to the Group have been transferred to the Group 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 the Group 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 the Group on an “as is” basis and on a going concern basis. See also below under “—Liability Regime”.

The following paragraphs provide a description of certain assets and liabilities allocated to the Group as part of the Separation.

### ***Real estate***

Over 200 real estate properties have been allocated to the Group, depending on whether the property was used for the benefit of the lighting business in whole or in part prior to the Separation. This includes real estate situated on key manufacturing sites located in Belgium, Poland, Hungary, India, China, the United States and Mexico. Owned real estate has been transferred to the Group and in respect of leased properties, either the lease agreement has been assigned to the Group or, in case of shared properties, a sub-lease agreement has been entered into with Royal Philips as the sub-lessor.

### ***Environmental***

Environmental liabilities, whether contingent or not, have been allocated between Royal Philips and the Group taking into account not only the allocation of manufacturing sites and other real estate objects to the Group, but also the fact that as part of the Separation, legacy environmental liabilities (*i.e.*, liabilities unrelated to the current business of Royal Philips or the current business of the Group) needed to be divided between Royal Philips and the Group. These legacy liabilities have been allocated by Royal Philips in such manner that after the Separation, each of Royal Philips and the Group would have an overall level of exposure to such liabilities as deemed appropriate by Royal Philips in view of their respective financial position. To the extent required under applicable accounting rules, provisions have been made in respect of environmental liabilities allocated to the Group, which provisions are reflected in the Combined Financial Statements and Condensed Combined Interim Financial Statements.

### ***Employees***

As of 31 March 2016, the Group employed approximately 36,350 full time equivalent personnel in over 70 countries. As part of the Separation, employees who immediately prior to the Separation worked exclusively in relation to the lighting business have been allocated to the Group, as well as certain employees providing functional support at group level. To the extent not already employed by legal entities forming part of the Group, these employees have transferred to the Group either by operation of law or by entering into an employment contract substituting their former contract. Pursuant to the Separation Agreement, the Company is liable for any liabilities to the extent arising out of or relating to its active employees, or to former employees of Royal Philips who worked exclusively in relation to the lighting business.

### ***Pensions***

Pension obligations of current employees and former employees of Royal Philips are in part externally funded and in part internally funded. Pension liabilities and liabilities from retiree medical plans of Royal Philips have been significantly reduced prior to the Separation. Remaining liabilities have subsequently been allocated between Royal Philips and the Group, with a view to arriving at an aggregate exposure to pension liabilities for each of the two companies that was deemed appropriate by Royal Philips in view of the size of each business and its balance sheet.

For internally funded pension plans, as a general principle under the Separation Agreement, any pension liabilities relating to current employees of the Group have been allocated to the Group. For externally funded plans, as a general principle, any pension liabilities accrued until the Separation relating to current employees of Royal Philips, continue to be for the account of the group company of Royal Philips in which the liability resided prior to the Separation. In most countries, this is a group company of Royal Philips, but in some cases, this is a member of the Group. Service costs for accrual of pension liabilities for current employees of the Group that arise after the Separation are for the account of the Group.

In respect of former employees, for internally funded plans as well as externally funded plans, pension liabilities continue to be for the account of the group company of Royal Philips in which the liability resided prior to the Separation. Again, in most countries, this is a group company of Royal Philips, but in some cases, this is a member of the Group. Exceptions to this general principle have been made in various countries, to arrive at the targeted aggregate exposure for each of Royal Philips and the Group. Also, for each major country a tailored approach has been designed taking into account fiscal, legal, financial and practical considerations.

Pension liabilities allocated to the Group are reflected, to the extent required, in the Combined Financial Statements and Condensed Combined Interim Financial Statements. The transfer also resulted in the Group recognizing €122 million in deferred tax assets.

### ***Claims***

As is customary for most large businesses, Royal Philips is involved in a number of legal proceedings both as claimant and as defendant. As part of the Separation, a limited number of claims exceeding a materiality threshold were explicitly allocated between Royal Philips and the Group based primarily on the relationship between the claim and their respective business. In respect of claims below the materiality threshold, the Separation Agreement provides that claims arising out of or relating to the business of the Group, or arising out of or relating to assets or liabilities allocated to the Group as part of the Separation, have been allocated to the Group. Provisions for legal claims allocated to the Group are reflected, to the extent required, in the Combined Financial Statements and Condensed Combined Interim Financial Statements.

### ***Acquisitions and divestments***

The former Royal Philips consisted of a portfolio of related businesses that was actively managed in line with the company's strategy. The composition of this portfolio has changed over time, as new businesses have been acquired and existing businesses have been divested. Liabilities, actual or contingent, in relation to such divestments have been allocated between Royal Philips and the Group, taking into account the nature of the divested business activities. The liabilities that the Group will assume as a result include certain contingent legal claims and indemnifications relating to tax and other topics.

### ***Lumileds***

Separate arrangements have been made in connection with the contemplated divestment by Royal Philips of the combined LED and automotive lighting components businesses ("**Lumileds**"). Although active in the lighting sphere, Lumileds has been separated from the Group and is retained by Royal Philips. Royal Philips is separately exploring strategic options to attract capital from third party investors for Lumileds. Any such transaction related to Lumileds will be for the account of Royal Philips.

The Group has entered into certain agreements with Lumileds in connection with the separation of Lumileds and the Group, including a strategic partnership and supply agreement regarding the strategic partnership between the Group and Lumileds for the supply of LED components by Lumileds to the Group, and certain other supply agreements for the supply of lighting components by the Group to Lumileds. The strategic partnership and supply agreement contains a purchase commitment pursuant to which the Group commits to purchase from Lumileds at least 60% of its actual spend on certain in-scope LED components for a period of four years as from 1 January 2016, provided *inter alia* that the price offered by Lumileds is competitive (*i.e.*, equal or lower than offered by other relevant suppliers). For certain LED components, this purchase commitment also applies if the price offered by Lumileds is higher than the prices offered by other suppliers but such excess does not exceed a certain range, in which case Royal Philips—subject to certain limitations—will compensate the Group for the excess as long as the Group is bound to purchase such LED components for such excess price. Such compensation is covered under a separate compensation agreement between the Group and Royal Philips. In addition to this compensation, the compensation agreement also provides that the Group may be entitled to certain bonuses if the Group purchases more than certain percentages of LED components from Lumileds under the strategic partnership and supply agreement. Different bonus target percentages apply to different types of LED components. The compensation and bonuses are valid for a period of four years as from 1 January 2016, subject to termination and variation rights set out in the compensation agreement.

Furthermore, the Group and Lumileds entered into an intellectual property agreement regarding, *inter alia*, the cross license of certain intellectual property between the Group and Lumileds, as well as regarding the arrangement of licenses under certain third-party patents following the Separation.

In connection with the Separation, Royal Philips also assigned to the Group certain transitional service agreements in relation to Lumileds, including an IT transitional service level agreement, that are to be performed between the Group and Lumileds. Additionally, the Group has also agreed with Royal Philips that it will consent to an assignment by Lumileds of the partnership and supply agreement and the intellectual property mutual license agreement between the Group and Lumileds to a new ultimate parent company of Lumileds (or any of such company's subsidiaries) as reasonably acceptable to the Group.



## Tax

As a result of the Separation, certain historical tax liabilities arising out of or relating to the business retained by Royal Philips have been transferred to or retained by the Group, and certain historical tax liabilities arising out of or relating to the Group's business have been transferred to or retained by Royal Philips by operation of law. The Group's business was separated from Royal Philips by way of share transfers, asset transfers and demergers:

- in the case of the share transfers, the historical tax liabilities of the entities transferred to the Group (including those arising out of or relating to the business of Royal Philips) generally follow such transferred entities by operation of law.
- in respect of the demergers, both the demerging and the acquiring legal entities may, on the basis of either local tax or corporate law, be held liable for (part of) the historical tax liabilities of the (demerging) legal entity in which the combined business activities were performed before the Separation.
- the assets transfers did in general not result in the transfer of historical tax liabilities to the Group.

To ensure that the historical tax liabilities (including the set-off of such liabilities against accounted for tax attributes) attributable to the Group's business are for the account of the Group, the Separation Agreement generally provides for the allocation of historical tax liabilities relating to the period prior to the Separation through a reciprocal tax indemnity. The reciprocal tax indemnity in the Separation Agreement provides that all historical tax liabilities up to and including 31 January 2016, known and unknown, that relate exclusively to the Group's business are generally for the account of the Group, and all historical tax liabilities, known and unknown that relate exclusively to the Royal Philips's business are generally for the account of Royal Philips. However, tax liabilities related to the ordinary course of business in the period from 1 January 2016 up to and including 31 January 2016 shall not be settled between the Group and Royal Philips. Certain historical tax liabilities relating to the Group's business, including the Group's legacy business, as well as to the business of Royal Philips have been allocated between the Group and Royal Philips on the basis of allocation principles set out in the Separation Agreement. The reciprocal tax indemnity included in the Separation Agreement excludes anticipated tax liabilities that are the direct result of the Separation. Such tax liabilities are, to the extent anticipated upon the Separation, for the account of the Group if such tax liabilities are imposed on the Group, regardless of whether these are related to the carve-out of the Group's business or Royal Philips business. These tax liabilities are, to the extent the relevant Separation steps are carried out before the end of the first quarter of 2016, accounted for in the Condensed Combined Interim Financial Statements. The Group is generally required to indemnify Royal Philips for any increase in the tax liabilities of Royal Philips (including the reduction of tax losses, deductions or other tax reliefs) as a result of (i) an adjustment or correction by a tax authority to the valuation used for the transfer of assets or shares of the Group Companies in connection with the Separation, or (ii) a reversal, denial or claw-back of certain tax reliefs claimed by Royal Philips in connection with the Separation. Royal Philips is generally required to indemnify the Group for any increase in the tax liabilities of the Group (including the reduction of tax losses, deductions or other tax reliefs) as a result of (i) an adjustment or correction by a tax authority to the valuation of assets or shares transferred to Royal Philips, or (ii) a reversal, denial or claw-back of certain tax reliefs claimed by the Group in connection with the Separation. The Separation Agreement also includes an indemnity for the benefit of the Group in respect of taxes that are primarily the liability of Royal Philips and for which a Group Company becomes liable as a consequence of being a member of the same fiscal unity or consolidated tax group as such group company of Royal Philips at any time before the Settlement Date.

The relevant Dutch Group Companies will by operation of law cease to be a member of the Royal Philips fiscal unity for Dutch corporate income tax purposes at or around the First Trading Date. Certain assets of these Dutch Group Companies have been transferred within the fiscal unity. Upon the separation from the fiscal unity these assets should be revalued and be set at fair market. As a result, Dutch corporate income tax on the difference between the book value and the fair market value (*i.e.*, the hidden reserves) is levied from the fiscal unity pursuant to the application of section 15ai CITA which will be borne by Royal Philips. Following the general principles set out above, the Group is also required to indemnify Royal Philips for any increase in the tax liability of Royal Philips (including the reduction of tax losses, deductions or other tax reliefs) as a result of an adjustment or correction of the amount of such hidden reserves by the Dutch tax authorities. At the same time, the relevant Dutch Group Companies will benefit from additional depreciation and amortization allowances resulting from the revaluation of the assets which give rise to an additional deferred tax asset.

Tax attributes are in principle retained by the entity in which they arose. After the Separation there will be no compensation between the Group and Royal Philips in respect of the use thereof.



## ***Prospectus liability***

The Separation Agreement also allocates to the Company any liability in connection with a claim that the information included in this Prospectus (or related communications), except for certain Royal Philips-provided information, is untrue, or in connection with a claim arising out of or based upon any omission to state a fact required to be stated in this Prospectus, or necessary to make the statements herein not misleading.

## **Liability Regime**

The Separation Agreement allocates assets and liabilities to each of Royal Philips and the Group. To the extent, prior to the Separation, such assets or liabilities already resided in legal entities forming part of the group to which they are allocated, no direct transfer of such assets and liabilities was required in connection with the Separation. To the extent such assets and liabilities did not reside in legal entities forming part of the group to which they were allocated, they were transferred either by way of an asset transfer, demerger or contribution. Assets and liabilities have been transferred between Royal Philips and the Group on an “as is” basis and on a going concern basis. No warranties have been provided by the transferor to the transferee and no representations have been made in this regard.

In certain instances, liabilities of one party that have been allocated to the other party, could not be legally transferred without cooperation of third parties, or could not be legally transferred at all. For example, legal claims against a legal entity cannot be legally transferred without cooperation of the claimant. Other examples of liabilities that cannot be legally transferred without cooperation of third parties include environmental liabilities, tax liabilities and pension liabilities. In these instances, the Separation Agreement provides for an economic transfer through an indemnity granted by the party to which the liability is allocated. In addition, under the Separation Agreement, the Company has granted a general indemnity to Royal Philips for all liabilities relating to the Group’s business, and Royal Philips has granted a general indemnity to the Company for all liabilities relating to Royal Philips’ business. These include the liabilities described above under “Allocation of assets and liabilities” and also other liabilities relating to the respective businesses.

As a result of this arrangement, the Company shall be indemnified in case claims relating to liabilities of Royal Philips are submitted against the Group. However, in respect of liabilities of legal entities forming part of the Group that have been allocated to Royal Philips but could not be legally transferred by the relevant legal entities to Royal Philips, such as legal claims, environmental liabilities, tax liabilities or pension liabilities, the Group will continue to be liable towards the relevant claimant, and depends on Royal Philips to indemnify the Group pursuant to the indemnity granted by Royal Philips to the Group. There can be no assurance that the indemnity from Royal Philips will be sufficient to protect the Group against the full amount, or any, of such claims, or that Royal Philips will be able to satisfy its indemnification obligations. If Royal Philips is not in the financial position to meet its indemnification obligation, this could have material adverse effects on the Group’s business, financial position and results of operations. Moreover, even if the Company ultimately succeeds in recovering from Royal Philips any amounts for which the Group is held liable, the Group may be temporarily required to bear these losses.

By way of surety for the fulfilment of the Company’s obligations under the Separation Agreement, including the indemnifications granted to Royal Philips, certain major subsidiaries of the Company have provided guarantees to Royal Philips. Conversely, certain major subsidiaries of Royal Philips have provided guarantees to the Company. However, there can be no assurance that if Royal Philips were to be unable to meet its indemnification obligations towards the Company, the subsidiaries who have provided guarantees will be.

## **Transitional Services**

Royal Philips and the Group have entered into a master TSA and various underlying transitional service level agreements (“**TSLAs**”) in respect of services that need to continue after completion of the Separation. The services are described in separate TSLAs that have been entered into between Royal Philips and the Group. The Group will also provide limited services to Royal Philips under reversed TSLAs.

As a general rule, the term of these TSLAs, including the IT TSLA and reverse IT TSLA, is 12 months, starting at the Effective Time. Depending on the services provided or received under these TSLAs, the term of the TSLAs may be longer or shorter (*i.e.*, between 1 and 24 months). It is the responsibility of the Group to replace the relevant TSLA with an internal solution or external contract prior to the end of the transition period. In respect of IT in particular, certain aspects of the migration to an independent IT platform will be challenging and complex. The Group expects to incur approximately €60 million to €70 million of costs in connection with the Separation for the year ending 31 December 2016, of which a substantial part is in connection with developing standalone IT systems. See also “Risk Factors—*The Group relies on Royal Philips to perform certain services after the Separation, including with respect to IT, and the Group may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company*”.

The price charged for the services in the TSLAs is in principle based on current cost levels and tax uplifts, where legally required.

The transitional services relate to: IT (*i.e.*, infrastructure and applications); real estate (*i.e.*, non-transferable lease contracts; local facility services); supply chain management (*i.e.*, warehousing and distribution); sales and marketing (*i.e.*, government contract and relation management); brand/digital & communication (*i.e.*, intranet; digital marketing services); research, Philips innovation services, Philips ventures (*i.e.*, shared research & innovation projects, activities and equipment); finance (*i.e.*, treasury, insurance, statutory reporting, operations, back-office); human resources (“**HR**”) (*i.e.*, HR IT applications, central system support, local payroll, admin & health insurance); procurement (*i.e.*, shared procurement tools); quality and regulation (*i.e.*, supplier quality tool); intellectual property and services (*i.e.*, licensing administration; reports and planning database); manufacturing (*i.e.*, local plant facilities); strategy (*i.e.*, alliances support); sustainability (*i.e.*, local sustainability support); and legal (limited local legal support).

### **IT TSLA and Reverse IT TSLA**

Under the IT TSLA, Philips Electronics Nederland B.V. (“**Philips Electronics**”) shall provide certain IT services to the Group for a period of 12 months as of the date of the Separation (“**IT Services Period**”). As soon as reasonably possible, but in any case prior to the end of the IT Services Period, the Group expects that its IT systems will operate independently and separately from the IT systems of Philips Electronics and the IT services provided by Philips Electronics. Under the terms of the IT TSLA, the Group is required to provide a migration plan and to align its approach with Philips Electronics for phasing out the IT services provided by Philips Electronics. The Company may request extension of the IT Services Period if, despite commercially reasonable endeavors by the Company to eliminate the Group’s dependency on more of the IT services, the Company foresees any remaining dependency on one or more of the IT services provided by Philips electronics after the IT Services Period that would threaten business continuity. Philips Electronics may not unreasonably withhold its consent to a request for an extension under the terms of the IT TSLA. In the event that Philips Electronics would fail to satisfy its obligations under the IT TSLA, the Group may suffer operational difficulties or loss. See “Risk Factors—*The Group relies on Royal Philips to perform certain services after the Separation, including with respect to IT, and the Group may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent company*”, for more information.

The IT services that will be provided under the IT TSLA consist of certain (i) functional IT services; (ii) IT infrastructure services; and (iii) IT application services. The scope of the IT services may be amended from time to time.

For the provision of (parts of) the IT services, Philips Electronics depends on agreements with third parties which may restrict or preclude the provision of IT services to the Group. While the Group is still under control of Royal Philips (the “**Internal IT Services Period**”), Philips Electronics shall extend similar use and access rights as it grants to any other group member in the Royal Philips group. When the Group is no longer under control of Royal Philips (the “**External IT Services Period**”), Philips Electronics shall extend only limited use and access rights. During the External IT Services Period, the Group is responsible for acquiring the right to use and to benefit from third party software.

Under the Reverse IT TSLA, the Company shall provide certain IT services to members of the Royal Philips group for a period of 12 months as of the date of the Separation. The terms and conditions of the Reverse IT TSLA are largely similar to those of the IT TSLA. The Reverse IT TSLA further provides that the Company and the Royal Philips group each have obligations in connection with the provision of IT services to Lumileds under an IT TSLA between Philips Electronics and Lumileds dated 1 April 2015 and any amendments and restatements made thereto, including those made as a result of any anticipated transaction following on which Royal Philips no longer directly or indirectly owns 100% of Lumileds (the “**Lumileds IT TSLA**”). The Reverse IT TSLA lists the services required to be delivered under the Lumileds IT TSLA and which are allocated to the Company.

### **Intellectual Property**

Under the TMLA, Royal Philips has licensed certain trademarks to the Group, including the Philips trademark, the Philips shield emblem and the brand line “innovation and you”. The Group was granted:

- an exclusive worldwide license for dedicated lighting products and services such as light sources, lighting controllers and lighting related services;
- a sole worldwide license for, amongst other things, lighting systems designed for hospitals and medical solar products; and
- a non-exclusive worldwide license for smart home/connected products controlling lighting systems for domestic use such as switches and dimmers.

The license was granted for a period of ten years commencing on the Effective Time. The term may be extended with two periods of five years if certain financial targets in terms of net turnover are met and provided that the Group as licensee has acted in compliance with the conditions of the TMLA. Net turnover is defined as the Group's gross invoiced sales for licensed products sold or otherwise disposed of and licensed services performed, less any sales tax, environmental charges and commercial returns in unopened packaging. The financial targets are a minimum combined net turnover in the sixth year of the initial license term of €3 billion and a minimum combined net turnover of €2.5 billion in the first year of the second license term. If these targets are not met, parties shall enter into good-faith discussions regarding potential renewal. The license is subject to compliance with brand identity-, quality- and sustainability requirements. Both parties may terminate the agreement in the event of certain material breaches that are not remedied timely and in case of bankruptcy of the other party or certain of its affiliates. As a result, any such breach may result in damages to be paid to Royal Philips and loss of the license for a subset or all products and services.

The Group has historically used the Philips brand name. The Group has historically incurred costs related to the promotion of the Philips brand which have been allocated to the Group under IG&S. Such allocations are reflected in the Combined Financial Statements. Under the TMLA, the Group is obliged to pay a royalty on the net turnover of all licensed products and services. The applicable royalty percentages are 0.6% for the first five years, 0.7% for the second five years and 1% after the tenth year. For the first ten years, a minimum annual guaranteed royalty payment of €30 million applies. Thereafter, a minimum annual guaranteed royalty payment of €20 million applies. The Group is also subject to various other obligations, including for example in respect of control mechanisms and consumer care for the licensed products. The Group expects that the net effect of the royalty payment to be made to Royal Philips under the TMLA annually will be approximately €20 million higher than the historical costs allocated to the Group for promotion of the Philips brand that are reflected in the Combined Financial Statements for the year ended 31 December 2015.

Under and subject to the conditions of the IP TLA, Royal Philips has transferred, licensed or otherwise made available to the Group certain intellectual property rights deemed relevant for the Group's business. The Group, on its part, has licensed back certain intellectual property rights to Royal Philips for use within the scope of Royal Philips' business. No royalty payments in respect of licenses are due by the Group or by Royal Philips under the IP TLA. For a description of the IP portfolio of the Group, see "Business—Intellectual Property".

Under the CNLA, the Group has also secured the right to use the Philips company name for a period of 18 months after the date that it is no longer controlled by Royal Philips. Royal Philips may terminate the agreement with immediate effect upon a change of control in relation to the Company or termination of the TMLA. The agreement terminates automatically under certain limited circumstances such as bankruptcy of the Company. Upon termination of the agreement, the Group will refrain from any use of the name "PHILIPS" as part of its corporate identity and adopt a new trade name that is dissimilar from "PHILIPS".

### **Insurance**

The Separation Agreement provides that as from the Separation, the Group will cease to benefit from coverage under existing Royal Philips local insurance policies for events occurring after the Separation Date. The Separation Agreement also provides that as from the Settlement Date, the Group will cease to benefit from coverage under existing Royal Philips global umbrella insurance policies.

The Separation Agreement further provides that for the Group to pursue coverage for events prior to the Settlement Date under existing Royal Philips global umbrella insurance policies, it must notify the insurer of such claim or circumstance within a fixed period. As part of the Separation, Royal Philips and the Group have agreed that if the insured limit of a local policy up to the Separation Date, or a global umbrella insurance policy up to the Settlement Date, is insufficient to pay out all coverage demands under such policy (through all primary and excess layers), then the parties shall allocate the original full insured limits such that in principle one-third of such limit is allocated to the Group and two-thirds of such limit is allocated to Royal Philips.

### **Access to Information**

The Separation Agreement provides that the parties will exchange certain information reasonably required to comply with requirements imposed on the requesting party by a government authority, or for use in any proceeding or to satisfy audit, accounting or similar requirements. In addition, the parties will use commercially reasonable efforts to make available to each other past and present directors, officers, other employees and agents as witnesses in any legal, administrative or other proceeding in which the other party may become involved.

### **Advisor's fees**

The Separation Agreement provides that fees of professional advisors (such as financial and legal advisors as well as accounting services providers), who have been engaged by Royal Philips prior to the Separation Date to advise and assist with the preparation and implementation of the Separation, are for the account of Royal Philips.

## DIVIDEND POLICY

### General

Under Dutch corporate law, the Company may only make distributions to its Shareholders if the Company's equity exceeds the sum of the paid-up and called-up share capital increased by the reserves as required to be maintained by Dutch law or by the Articles of Association. Under the Articles of Association, the dividend pay-out is a multi-stage pay-out which can be summarized as follows.

A dividend will be paid out of the profit for distribution on the Preference Shares (if any). The Board of Management may, subject to the approval of the Supervisory Board and subject to Dutch law and the Articles of Association, resolve that any amount remaining out of the profit after the distribution on Preference Shares will be added to the reserves. The profit remaining after the distribution on Preference Shares and the reservation, will be at the disposal of the General Meeting which may resolve to add the profits to the reserves or to distribute it among the Shareholders.

Under the Articles of Association, distribution of profits as shown by the adopted annual accounts referred to in Section 2:391 of the DCC (the "**Annual Accounts**"), will be made after the adoption of the Annual Accounts from which it appears that they are permitted for the respective financial year, entirely without prejudice to any of the other provisions of the Company's articles of association.

Subject to the approval of the Supervisory Board and subject to Dutch law and the Articles of Association, the Board of Management may resolve to distribute an interim dividend insofar as the Company's equity exceeds the amount of the paid-up and called-up part of the share capital increased with the reserves that should be maintained pursuant to Dutch law or the Articles of Association. For this purpose, the Board of Management must prepare an interim statement of assets and liabilities evidencing sufficient distributable equity.

Subject to the approval of the Supervisory Board, and subject to Dutch law and the Articles of Association, the Board of Management may resolve to distribute a dividend in the form of Ordinary Shares to the Shareholders.

According to the Articles of Association, dividends and other distributions will be due and payable no later than thirty days after the date when they were declared, unless the body declaring the dividend determines a different date.

### Dividend History

The Company was incorporated on 1 February 2016 and has not made any dividend distributions on or prior to the date of this Prospectus.

### Dividend Policy

The Company is targeting an annual dividend pay-out ratio of 40% to 50% of continuing net income<sup>8</sup> to be paid out annually in cash. The Company expects the first dividend payment to take place in 2017, which will be based on the results over the full year 2016. There can be no assurances that in any given year a dividend will be paid. The payment of dividends, if any, and the amounts and timing thereof will depend on a number of factors, including future revenue, profits, financial conditions, general economic and business conditions and prospects and such other factors as the Board of Management may deem relevant as well as other legal and regulatory requirements, many of which are beyond the control of the Company. There can be no assurances that the Group's performance will facilitate adherence to the dividend policy or any increase in the pay-out ratio and, in particular, the Company's ability to pay dividends may be impaired if any of the risks described in this Prospectus were to occur. The Company is a holding company and its ability to generate income and pay dividends is dependent on the ability of its subsidiaries to declare and pay dividends or lend funds to the Company. In addition, the Company's ability to pay dividends is subject to restrictions on the distribution of dividends under Dutch law. See "Risk Factors—*The payment of future dividends will depend on the Group's results of operations and financial condition, as well as on the Group's operating subsidiaries' distributions to the Company*". Furthermore, the Company's dividend policy is subject to change as the Board of Management may revisit the Company's dividend policy from time to time.

### Manner and Time of Dividend Payments

Payment of any dividend in cash will in principle be made in euro. According to the Articles of Association, the Board of Management may determine that distributions on Shares will be made payable either in euro or in another currency. Any dividends that are paid to Shareholders through Euroclear Nederland, will be

<sup>8</sup> Continuing net income is defined as recurring net income from continuing operations, or net income excluding discontinued operations and excluding material non-recurring items.

automatically credited to the relevant Shareholders' accounts without the need for the Shareholders to present documentation proving their ownership of the Shares. Payment of dividends on the Shares in registered form (not held through Euroclear Nederland, but directly) will be made directly to the relevant Shareholder using the information contained in the Company's shareholders' register and records.

#### **Uncollected Dividends**

A claim for any declared dividend and other distributions lapses five years and one day after the date those dividends or distributions became payable. Any dividend or distribution that has not been claimed within this period will be forfeited and will be carried to the reserves of the Company.

#### **Taxation**

Dividend payments on the Shares are generally subject to withholding tax in the Netherlands. See "Taxation—Taxation in the Netherlands—Withholding tax".



## CAPITALIZATION AND INDEBTEDNESS

### Capitalization

The following table presents (i) the Group's actual combined capitalization as of 31 March 2016; (ii) adjustments for the effects of certain intragroup transactions in connection with the Offering as if they had occurred on 31 March 2016; (iii) adjustments for debt financing in an aggregate amount of approximately €1,179 million as if it had occurred on 31 March 2016; and (iv) the Group's combined capitalization as of 31 March 2016, as adjusted to reflect the adjustments described in (ii) and (iii). As of 31 March 2016, Philips Lighting Holding B.V. was the parent company of the Group. As a result of certain intragroup transactions, the Company will become the parent company of the Group. See "Separation" for more information.

This table should be read in conjunction with the Condensed Combined Interim Financial Statements and Combined Financial Statements and the information included in "Important Information—Presentation of Financial Information", "Selected Historical Financial Information" and "Operating and Financial Review". See "Description of Share Capital" for information concerning the Company's share capital.

The Company will not receive any proceeds from the Offering, as the net proceeds will be received by the Selling Shareholder. Therefore, the table below does not include any adjustment in respect of the net proceeds of the Offering.

The "adjustment" and "as adjusted" columns below are based upon a number of estimates, and the corresponding final amounts will not be determinable until the transactions described in (ii) and (iii) above have actually occurred. The actual impact of such transactions, which may differ, possibly materially, from the estimates shown in the "adjustment" and "as adjusted" columns below, is expected to be reflected in the Group's financial information for the six months ending 30 June 2016.

*In € millions*

	Actual	Adjustments		As Adjusted
	As of 31 March 2016 <sup>(1)</sup>	Intragroup Transactions <sup>(2)</sup>	Debt Financing <sup>(3)</sup>	As of 31 March 2016
<b>Total current liabilities</b> .....	<b>2,761</b>	<b>(645)</b>	<b>—</b>	<b>2,116</b>
Guaranteed .....	—	—	—	—
Secured .....	—	—	—	—
Unguaranteed/unsecured .....	2,761	(645)	—	2,116
<b>Total non-current liabilities</b> .....	<b>1,054</b>	<b>—</b>	<b>1,179</b>	<b>2,233</b>
Guaranteed .....	—	—	1,179	1,179
Secured .....	—	—	—	—
Unguaranteed/unsecured .....	1,054	—	—	1,054
<b>Business equity</b> .....	<b>3,121</b>	<b>(714)</b>	<b>—</b>	<b>2,407</b>
Owner's net investment .....	3,011	(3,011)	—	—
Share premium .....	—	2,296	—	2,296
Share capital .....	—	1	—	1
Other .....	—	—	—	—
Non-controlling interest .....	110	—	—	110
<b>Total capitalization</b> <sup>(4)</sup> .....	<b>6,936</b>	<b>(1,359)</b>	<b>1,179</b>	<b>6,756</b>

(1) Financial information set forth in this column was derived from the Group's balance sheet as of 31 March 2016 included in the Condensed Combined Interim Financial Statements. As of 31 March 2016, Philips Lighting Holding B.V. was the parent company of the Group. As a result of certain intragroup transactions, the Company will become the parent company of the Group.

(2) The Group estimates that certain intragroup transactions on or prior to the Settlement Date would result in the following adjustments to the Group's capitalization:

- (i) a net decrease in unguaranteed/unsecured debt of €(645) million due to settlement of intragroup liabilities (including intragroup liabilities in connection with the Separation);
- (ii) a decrease in owner's net investment of €3,011 million due to: (a) distribution in cash of \$500 million (equivalent to €(439) million based on the euro to U.S. dollar exchange rate of €1.00 = \$1.1421 as of 6 May 2016) from the Group to Royal Philips; (b) a decrease in owner's net investment of €(908) million resulting from the contribution and sale by the Selling Shareholder to the Company of all of the outstanding share capital of Philips Lighting Holding B.V.; and (c) a decrease in owner's net investment of €(1,664) million in connection with the contribution (at book value) by the Selling Shareholder to the Company of the U.S. business of the Group;
- (iii) an increase in share premium of €2,296 million due to: (a) an increase in share premium of €167 million resulting from the issuance by the Company of 149,999,900 Ordinary Shares to the Selling Shareholder as part of the consideration for the contribution and sale by the Selling Shareholder to the Company of all of the outstanding share capital of Philips Lighting Holding B.V.; (b) an increase in share premium of €1,664 million in connection with the contribution (at book value) by the Selling Shareholder to the Company of the U.S. business of the Group; (c) an increase in share premium of €427 million in connection with contribution in cash by the Selling Shareholder to the Company in repayment of intragroup debt (representing the difference between short-term loans payable to Royal Philips of €(645) million and short-term loans receivable from Royal Philips of €207 million, minus net decrease in cash of €(11) million); and (d) an increase in share premium of €38 million due to recognition of a deferred tax asset resulting from dissolution of the Netherlands tax group on or prior to the Settlement Date; and

(iv) an increase in share capital of €1 million resulting from the issuance by the Company of 149,999,900 Ordinary Shares to the Selling Shareholder in exchange for the contribution and sale by the Selling Shareholder to the Company of all outstanding share capital of Philips Lighting Holding B.V.

The Group also expects to engage in certain other intragroup transactions which will not have any net effect on capitalization, including loan and repayment of intragroup debt from the Selling Shareholder to the Company in an amount of €740 million in connection with the contribution and sale by the Selling Shareholder to the Company of all of the outstanding share capital of Philips Lighting Holding B.V.

The actual amounts involved in the intragroup transactions may differ, possibly materially, from the amounts described above due to, among other factors, (i) changes in working capital, including the effect of payments to third parties and payments by Royal Philips to the Group of receivables under the Royal Philips cash pooling arrangements, (ii) the impact of foreign currency exchange rate movements on the value of assets and liabilities, (iii) repayments by the Group of liabilities to third parties, (iv) new third party borrowings by the Group, (e.g., local working capital funding in countries where cross-border cash flows are restricted); (v) changes in the actual cash balances due to, among other factors, business performance of the Group from 31 March 2016 through the Settlement Date and intercompany financing arrangements and (vi) the value of the business on or prior to the Settlement Date. On the Settlement Date, the amount of the contribution in cash from Royal Philips to the Company (which is assumed to be €427 million as described above) will be determined in order to achieve a net financial indebtedness of approximately €950 million, representing a ratio to 2015 EBITDA of approximately 1.5x, as of the close of business on the Settlement Date.

(3) On or prior to the Settlement Date, the Group expects to draw down \$500 million (equivalent to €439 million based on the euro to U.S. dollar exchange rate of €1.00 = \$1.1421 as of 6 May 2016) and €740 million under the Term Loan Facility. The Group does not expect to draw down any amounts under the Revolving Credit Facility immediately. The actual amounts drawn down under the Term Loan Facility may differ from the amounts shown in the table due to foreign currency exchange rate movements in relation to the \$500 million drawdown. See “Operating and Financial Review—Financing Structure Following the Offering” for a description of the Term Loan Facility and the Revolving Credit Facility.

(4) Total capitalization is the sum of total current liabilities, total non-current liabilities and business equity.

### Indebtedness

The following table presents (i) the Group’s combined indebtedness as of 31 March 2016; (ii) adjustments for the effects of certain intragroup transactions in connection with the Offering as if they had occurred on 31 March 2016; (iii) adjustments for debt financing in an aggregate amount of approximately €1,179 million as if it had occurred on 31 March 2016; and (iv) the Group’s combined capitalization as of 31 March 2016, as adjusted to reflect the adjustments described in (ii) and (iii). As of 31 March 2016, Philips Lighting Holding B.V. was the parent company of the Group. As a result of certain intragroup transactions, the Company will become the parent company of the Group. See “Separation” for more information.

This table should be read in conjunction with the Condensed Combined Interim Financial Statements and Combined Financial Statements and the information included in “Important Information—Presentation of Financial Information”, “Selected Historical Financial Information” and “Operating and Financial Review”.

The “adjustment” and “as adjusted” columns below are based upon a number of estimates, and the corresponding final amounts will not be determinable until the transactions described in (ii) and (iii) above have actually occurred. The actual impact of such transactions, which may differ, possibly materially, from the estimates shown in the “adjustment” and “as adjusted” columns below, is expected to be reflected in the Group’s financial information for the six months ending 30 June 2016. The Group intends to achieve a net financial indebtedness of approximately €950 million, representing a ratio to 2015 EBITDA of approximately 1.5x, as of the close of business on the Settlement Date.

<i>In € millions</i>	Actual	Adjustments		As Adjusted
	As of 31 March 2016 <sup>(1)</sup>	Intragroup Transactions <sup>(2)</sup>	Debt Financing <sup>(3)</sup>	As of 31 March 2016
A. Cash . . . . .	258	(1,190)	1,179	247
B. Cash equivalent . . . . .	95	—	—	95
C. Trading securities . . . . .	—	—	—	—
<b>D. Liquidity (A) + (B) + (C) . . . . .</b>	<b>353</b>	<b>(1,190)</b>	<b>1,179</b>	<b>342</b>
<b>E. Current financial receivables . . . . .</b>	<b>207</b>	<b>(207)</b>	—	—
F. Current bank debt . . . . .	52	—	—	52
G. Current portion of non-current debt . . . . .	43	—	—	43
H. Other current financial debt . . . . .	645	(645)	—	—
<b>I. Current financial debt (F) + (G) + (H) . . . . .</b>	<b>740</b>	<b>(645)</b>	—	<b>95</b>
<b>J. Net current financial indebtedness (I) – (E) – (D) . . . . .</b>	<b>180</b>	<b>752</b>	<b>(1,179)</b>	<b>(247)</b>
K. Non-current bank loans . . . . .	18	—	1,179	1,197
L. Bonds issued . . . . .	—	—	—	—
M. Other non-current loans . . . . .	—	—	—	—
<b>N. Non-current financial indebtedness (K) + (L) + (M) . . . . .</b>	<b>18</b>	—	<b>1,179</b>	<b>1,197</b>
<b>O. Net financial indebtedness (J) + (N) <sup>(4)</sup></b>	<b>198</b>	<b>752</b>	—	<b>950</b>

(1) Financial information set forth in this column was derived from the Group’s balance sheet as of 31 March 2016 included in the Condensed Combined Interim Financial Statements. As of 31 March 2016, Philips Lighting Holding B.V. was the parent company of the Group. As a result of certain intragroup transactions, the Company will become the parent company of the Group.

- (2) The Group estimates that certain intragroup transactions on or prior to the Settlement Date would result in the following adjustments to the Group's indebtedness:
- (i) a net decrease in cash of €(1,190) million due to: (a) distribution of \$(500) million (equivalent to €(439) million based on the euro to U.S. dollar exchange rate of €1.00 = \$1.1421 as of 6 May 2016) from the Group to Royal Philips; (b) repayment by the Group to Royal Philips of intragroup debt in an amount of €(740) million; (c) repayment by Royal Philips to the Group of outstanding current financial receivables in an amount of €207 million; (d) repayment by the Group to Royal Philips of short-term loans payable in an amount of €(645) million; (e) contribution in cash by Royal Philips to the Company in an amount of €427 million;
  - (ii) a decrease in current financial receivables of €(207) million due to the repayment from Royal Philips to the Group of outstanding current financial receivables; and
  - (iii) a decrease in other current financial debt of €(645) million due to repayment by the Group to Royal Philips of short-term loans payable

The Group will also engage in certain other intragroup transactions which are not expected to have any net effect on capitalization, including loan and repayment of intragroup debt from the Selling Shareholder to the Company in an amount of €740 million in connection with the contribution and sale by the Selling Shareholder to the Company of all of the outstanding share capital of Philips Lighting Holding B.V.

The actual amounts involved in the intragroup transactions may differ, possibly materially, from the amounts described above due to, among other factors, (i) changes in working capital, including the effect of payments to third parties and payments by Royal Philips to the Group of receivables under the Royal Philips cash pooling arrangements, (ii) the impact of foreign currency exchange rate movements on the value of assets and liabilities, (iii) repayments by the Group of liabilities to third parties, (iv) new third party borrowings by Group (*e.g.*, local working capital funding in countries where cross-border cash flows are restricted), (v) changes in the actual cash balances due to, among other factors, business performance of the Group from 31 March 2016 through the Settlement Date and intercompany financing arrangements and (vi) the value of the business on or prior to the Settlement Date. On the Settlement Date, the amount of the contribution in cash from Royal Philips to the Company (which is assumed to be €427 million as described above) will be determined in order to achieve a net financial indebtedness of approximately €950 million, representing a ratio to 2015 EBITDA of approximately 1.5x, as of the close of business on the Settlement Date.

- (3) On or prior to the Settlement Date, the Group expects to draw down \$500 million (equivalent to €439 million based on the euro to U.S. dollar exchange rate of €1.00 = \$1.142 as of 6 May 2016) and €740 million under the Term Loan Facility. The Group does not expect to draw down any amounts under the Revolving Credit Facility immediately. The actual amounts drawn down under the Term Loan Facility may differ from the amounts shown in the table due to foreign currency exchange rate movements in relation to the \$500 million drawdown. See "Operating and Financial Review—Financing Structure Following the Offering" for a description of the Term Loan Facility and the Revolving Credit Facility.
- (4) The Group had EBITDA of €646 million for the year ended 31 December 2015. As adjusted for debt financing and based on the transactions and assumptions described herein, the Group is therefore expected to have a net financial indebtedness to 2015 EBITDA ratio of approximately 1.5x, as of the close of business on the Settlement Date with the ability to reduce leverage over time (excluding temporary increases in leverage as a result of acquisitions). See "Operating and Financial Review—Non-IFRS measures" for more information on non-IFRS financial measures and reconciliation of EBITDA for the year ended 31 December 2015.

The Group does not have any indirect or contingent indebtedness other than the contractual obligations and contingent liabilities described in Note 14 to the Condensed Combined Interim Financial Statements and Notes E.24 and E.26 to the Combined Financial Statements.

## SELECTED HISTORICAL FINANCIAL INFORMATION

The selected combined financial information of the Group as of and for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 set forth below have been derived from the Combined Financial Statements included elsewhere in this Prospectus, which have been prepared in accordance with IFRS and audited by KPMG, independent auditors.

The selected combined financial information of the Group as of and for the three-month period ended 31 March 2016 set forth below, have been derived from the Condensed Combined Interim Financial Statements included elsewhere in this Prospectus, which has been prepared in accordance with International Accounting Standards (“IAS”) 34. The selected combined financial information of the Group as of and for the comparative three-month period ended 31 March 2015 set forth below, have also been derived from the Condensed Combined Interim Financial Statements. EY has issued a review report of the Condensed Combined Interim Financial Statements as of and for the three month period ended 31 March 2016 as set forth in their report thereon included in the Condensed Combined Interim Financial Statements.

The following information should be read in conjunction with the information contained in “Important Information—Presentation of Financial and Other Information”, “Capitalization and Indebtedness”, “Operating and Financial Review”, the Condensed Combined Interim Financial Statements, including the notes thereto, the Combined Financial Statements, including the notes thereto and the auditor’s report thereon and other financial data appearing elsewhere in this Prospectus.

The Group historically did not exist as a reporting group and no separate (statutory) consolidated financial statements were therefore prepared. Accordingly, to allow for the evaluation of the historical financial results of the Group’s business, the Group has prepared the Combined Financial Statements and the Condensed Combined Interim Financial Statements. For additional information, see “Operating and Financial Review—Basis of Preparation of Financial Information”.

The following tables present the Group’s combined income statement, the Group’s combined balance sheet, the Group’s combined cash flows statement and information regarding the Business Groups for the periods or as of the dates indicated.

### Combined Statements of Income

<i>In € millions</i>	For the three months ended 31 March (unaudited)		For the year ended 31 December		
	2016	2015	2015	2014	2013
Sales .....	1,702	1,727	7,465	6,981	7,129
Cost of sales .....	(1,075)	(1,106)	(4,810)	(4,671)	(4,573)
<b>Gross margin</b> .....	<b>627</b>	<b>621</b>	<b>2,655</b>	<b>2,310</b>	<b>2,556</b>
Selling expenses .....	(430)	(430)	(1,751)	(1,657)	(1,722)
Research and development expenses .....	(90)	(88)	(366)	(395)	(375)
General and administrative expenses .....	(49)	(50)	(233)	(223)	(233)
Impairment of goodwill .....	(2)	—	—	(2)	(26)
Other business income .....	18	2	48	13	31
Other business expenses .....	(3)	—	(22)	(5)	(18)
<b>Income from operations</b> .....	<b>71</b>	<b>55</b>	<b>331</b>	<b>41</b>	<b>213</b>
Financial income .....	4	—	3	3	3
Financial expenses .....	(21)	(2)	(11)	(9)	(4)
<b>Income before taxes</b> .....	<b>54</b>	<b>53</b>	<b>323</b>	<b>35</b>	<b>212</b>
Income tax expense .....	(40)	(23)	(83)	(66)	(45)
<b>Income after taxes</b> .....	<b>14</b>	<b>30</b>	<b>240</b>	<b>(31)</b>	<b>167</b>
Results relating to investments in associates .....	—	—	—	2	1
<b>Net income (loss)</b> .....	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>

## Combined Balance Sheets

<i>In € millions</i>	As of 31 March (unaudited)	As of 31 December		
	2016	2015	2014	2013
<b>Non-current assets</b>				
<i>Property, plant and equipment:</i>				
At cost	2,634	2,620	2,840	2,767
Less accumulated depreciation	(2,031)	(1,986)	(2,118)	(1,937)
Total property, plant and equipment	603	634	722	830
Goodwill	1,781	1,844	1,676	1,458
<i>Intangible assets:</i>				
At cost	2,196	2,192	2,120	1,799
Less accumulated depreciation	(1,391)	(1,336)	(1,214)	(1,027)
Total intangible assets	805	856	906	772
Non-current receivables	16	20	10	8
Investments in associates	23	23	24	27
Other non-current financial assets	58	8	23	22
Deferred tax assets	409	259	241	212
Other non-current assets	19	15	4	4
<b>Total non-current assets</b>	<b>3,714</b>	<b>3,659</b>	<b>3,606</b>	<b>3,333</b>
<b>Current assets</b>				
Inventories	1,010	988	996	983
Other current assets	48	46	65	52
Derivative financial assets	10	9	17	20
Income tax receivable	30	25	8	7
<i>Receivables:</i>				
Accounts receivable	1,344	1,436	1,455	1,289
Accounts receivable from related parties—Royal Philips	65	83	3	13
Other current receivables	103	80	87	69
Total receivables	1,512	1,599	1,545	1,371
Assets classified as held for sale	52	34	20	15
Short-term loans receivable from Royal Philips	207	—	—	—
Cash and cash equivalents	353	83	75	49
<b>Total current assets</b>	<b>3,222</b>	<b>2,784</b>	<b>2,726</b>	<b>2,497</b>
<b>Total assets</b>	<b>6,936</b>	<b>6,443</b>	<b>6,332</b>	<b>5,830</b>
<b>Equity</b>				
Owner's net investment	3,011	3,513	3,495	3,297
Non-controlling interest	110	103	88	2
<b>Business equity</b>	<b>3,121</b>	<b>3,616</b>	<b>3,583</b>	<b>3,299</b>
<b>Non-current liabilities</b>				
Long-term debt	18	2	41	6
Long-term provisions	678	350	461	348
Deferred tax liabilities	38	126	150	132
Other non-current liabilities	320	159	158	145
<b>Total non-current liabilities</b>	<b>1,054</b>	<b>637</b>	<b>810</b>	<b>631</b>
<b>Current liabilities</b>				
Short-term debt	95	86	49	2
Short-term loans payable to Royal Philips	645	—	—	—
Derivative financial liabilities	13	7	15	22
Income tax payable	23	6	14	10
<i>Account and notes payable:</i>				
Trade creditors	765	940	847	867
Accounts payable to related parties – Royal Philips	147	111	37	20
Total account and notes payable	912	1,051	884	887
Accrued liabilities	404	459	447	459
Short-term provisions	266	263	240	227
Liabilities associated with assets classified as held for sale	10	6	—	—
Other current liabilities	393	312	290	293
<b>Total current liabilities</b>	<b>2,761</b>	<b>2,190</b>	<b>1,939</b>	<b>1,900</b>
<b>Total liabilities</b>	<b>3,815</b>	<b>2,827</b>	<b>2,749</b>	<b>2,531</b>
<b>Total liabilities and business equity</b>	<b>6,936</b>	<b>6,443</b>	<b>6,332</b>	<b>5,830</b>



## Combined Statements of Cash Flows

<i>In € millions</i>	For the three months		For the year ended		
	ended 31 March		31 December		
	2016	2015	2015	2014	2013
<b>Cash flows from operating activities</b>					
<b>Net income (loss)</b>	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>
Depreciation, amortization & impairments of non-financial assets	78	73	315	381	390
Impairment of non-current financial assets	3	—	4	—	—
Net gain on sale of assets	(1)	—	(26)	(2)	(1)
Interest income	(4)	—	(3)	(3)	(3)
Interest expense on debt, borrowings and other liabilities	18	2	7	9	4
Income tax expense	40	23	83	66	45
Share-based compensation	6	7	24	22	27
Decrease (increase) in working capital	(102)	79	209	(33)	(231)
<i>Decrease (increase) in receivables and other current assets</i>	28	28	—	(17)	(206)
<i>Decrease (increase) in inventories</i>	(47)	(65)	29	114	(94)
<i>Increase (decrease) in accounts payable, accrued and other current liabilities</i>	(83)	116	180	(130)	69
Increase (decrease) in non-current receivables, other assets and other liabilities	(63)	2	(29)	—	4
Increase (decrease) in provisions	(31)	(23)	(79)	116	(86)
Decrease (increase) in assets classified as held for sale	—	—	—	(1)	(1)
Interest paid	(1)	(2)	(2)	(5)	—
Income taxes paid	(17)	(7)	(26)	(43)	(54)
<b>Net cash provided by operating activities</b>	<b>(60)</b>	<b>184</b>	<b>717</b>	<b>478</b>	<b>262</b>
<b>Cash flows from investing activities</b>					
Net capital expenditures	(18)	(28)	(85)	(123)	(178)
<i>Additions of intangible assets</i>	(4)	(8)	(38)	(51)	(38)
<i>Capital expenditures on property, plant and equipment</i>	(16)	(20)	(98)	(109)	(159)
<i>Proceeds from disposal of property, plant and equipment</i>	2	—	51	37	19
Proceeds from other non-current financial assets	—	17	31	—	—
Purchase of businesses, net of cash acquired	—	(3)	(11)	(125)	—
Dividends received from investments in associates	—	—	—	(1)	2
<b>Net cash used in investing activities</b>	<b>(18)</b>	<b>(14)</b>	<b>(65)</b>	<b>(249)</b>	<b>(176)</b>
<b>Cash flows from financing activities</b>					
Funding by (distribution to) Royal Philips	(349)	(149)	(626)	(200)	(95)
Capital contribution from Royal Philips	692	—	—	—	—
Proceeds from issuance (payments) of debt	3	(24)	(12)	(1)	(2)
<b>Net cash used for financing activities</b>	<b>346</b>	<b>(173)</b>	<b>(638)</b>	<b>(201)</b>	<b>(97)</b>
<b>Net cash (used for) provided by continuing operations</b>	<b>268</b>	<b>(3)</b>	<b>14</b>	<b>28</b>	<b>(11)</b>
Effects of changes in exchange rates on cash and cash equivalents	2	(9)	(6)	(2)	2
Cash and cash equivalents at beginning of period	83	75	75	49	58
<b>Cash and cash equivalents at end of period</b>	<b>353</b>	<b>63</b>	<b>83</b>	<b>75</b>	<b>49</b>

## Business Group Information

The Group's business is organized and managed on a functional basis by technology and end-markets through four operating Business Groups: BG Lamps, BG LED, BG Professional and BG Home. Certain innovation activities of the Group, as well as certain costs related to the headquarters of the Group, are not reflected in the financial results of the Business Groups, and are described under the caption "Other" in this Prospectus.

<i>In € millions</i>	<b>BG Lamps</b>	<b>BG LED</b>	<b>BG Profes- sional</b>	<b>BG Home</b>	<b>Other</b>	<b>Total</b>
<b><i>For the three months ended 31 March 2016 (unaudited)</i></b>						
Sales .....	615	355	601	124	7	<b>1,702</b>
Income from operations .....	113	19	(25)	(15)	(21)	<b>71</b>
<b><i>For the three months ended 31 March 2015 (unaudited)</i></b>						
Sales .....	727	275	610	112	3	<b>1,727</b>
Income from operations .....	106	2	(19)	(19)	(15)	<b>55</b>
<b><i>For the year ended 31 December 2015</i></b>						
Sales .....	2,850	1,334	2,757	515	9	<b>7,465</b>
Income from operations .....	403	66	14	(73)	(79)	<b>331</b>
<b><i>For the year ended 31 December 2014</i></b>						
Sales .....	3,119	958	2,420	482	2	<b>6,981</b>
Income from operations .....	356	(62)	(56)	(70)	(127)	<b>41</b>
<b><i>For the year ended 31 December 2013</i></b>						
Sales .....	3,557	772	2,308	490	2	<b>7,129</b>
Income from operations .....	586	(20)	(75)	(152)	(126)	<b>213</b>

## OPERATING AND FINANCIAL REVIEW

*This operating and financial review should be read in conjunction with the rest of this Prospectus, including the information set forth in “Important Information”, “Capitalization and Indebtedness” and “Selected Historical Financial Information” and the information set forth in the Combined Financial Statements and the Condensed Combined Interim Financial Statements.*

*The Combined Financial Statements as of and for the years ended 31 December 2015, 2014, and 2013 have been derived from the consolidated financial statements of Royal Philips. The Combined Financial Statements have been prepared in accordance with IFRS as adopted by the EU and in accordance with IFRS as issued by the IASB. References to “IFRS” should be construed as references to International Financial Reporting Standards as adopted by the EU and as issued by the IASB. The Combined Financial Statements have been prepared based on “carve-out” financial information from the consolidated financial statements of Royal Philips for the purpose of presenting the financial position, results of operations and cash flow of the Group on a stand-alone basis. The Combined Financial Statements have been prepared on a going-concern basis. The Combined Financial Statements have been audited by KPMG as set forth in their report thereon included in the Combined Financial Statements.*

*The Condensed Combined Interim Financial Statements for the three month periods ended 31 March 2016 and 2015 and as of 31 March 2016 have been prepared on the basis of IAS 34. The Condensed Combined Interim Financial Statements do not include all of the information required for the Combined Financial Statements and should be read in conjunction with the Combined Financial Statements. EY has issued a review report of the Condensed Combined Interim Financial Statements as of and for the three month period ended 31 March 2016 as set forth in their report thereon included in the Condensed Combined Interim Financial Statements.*

*For a discussion of the presentation of the Group’s historical financial information included in this Prospectus, see “—Basis of Preparation of Financial Information”.*

*This operating and financial review contains forward-looking statements that involve risks and uncertainties. The Group’s future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in particular in the sections entitled “Risk Factors” and “Business” and elsewhere in this Prospectus. See “Important Information—Forward-Looking Statements” for a discussion of the risks and uncertainties related to those statements.*

### Overview

The Group is a global market leader in the general lighting market measured by sales with recognized expertise in the development, manufacturing and application of innovative lighting products, systems and services. The Group has pioneered many of the key breakthroughs in lighting over the past 125 years, including incandescent lighting, HID lamps, fluorescent lighting and CFL, and has been a driving force behind several technological transitions, laying the basis for its current strengths and its leading position in the transition of the lighting industry from conventional lighting technologies to LED lighting technologies as well as lighting systems (including connected lighting systems) and services. The Group has a strong track record in innovation and invests heavily in R&D (for the year ended 31 December 2015, 4.9% of sales) to stay at the forefront of technological developments. It has a strong patent portfolio with over 14,000 patent rights, which it believes is more than any of its competitors, and a licensing program with over 600 licensees as of 31 March 2016.

The Group believes that it is well positioned across the lighting value chain and has a focus on the general lighting market. The Group’s light source product portfolio includes incandescent lamps, halogen lamps, fluorescent lamps, LFLs, CFLs, HID lamps and LED lamps. In addition, the Group offers electronic components, such as electronic ballasts and drivers, as well as complete luminaires for consumers and professional users. The Group also places emphasis on offering innovative, integrated and customized lighting systems and services, including light management systems and value-added services such as energy audits, light design and engineering as well as remote monitoring and managed services. The Group’s products are used for illumination and visualization in a variety of applications for general lighting, in particular residential, road and street, architectural, office, industrial, retail and hospitality lighting. The Group also produces light sources and systems for special applications, such as projection, cinema, entertainment, city beautification (*i.e.*, dynamic architectural lighting) and horticulture as well as water purification (*e.g.*, disinfection with ultraviolet radiation). The combined LED and automotive lighting components businesses of Royal Philips were separated into a stand-alone company in 2015. The lighting components and automotive lighting businesses are not reflected in the financial results of the Group.

The Group has a global reach with commercial activities that cover approximately 180 countries. The Group has operational manufacturing plants in 22 countries in all major regions of the world, and more than 70 sales

offices worldwide. The Group handles commercial activities in countries without a sales organization via independent distributors and agents who cooperate closely with the Group's international sales organization.

The Group has secured the right to use the Philips brand for products and services for an initial period of ten years following the Separation. This term may be extended with two periods of five years if certain financial targets in terms of net turnover are met and provided that the Group as licensee has acted in compliance with the conditions of the trademark license agreement. The brand license is subject to royalty payments. The Group expects that the net effect of the royalty payment to be made to Royal Philips under the trademark license agreement annually will be approximately €20 million higher than the historical costs allocated to the Group for promotion of the Philips brand that are reflected in the Combined Financial Statements for the year ended 31 December 2015.

For the year ended 31 December 2015, the Group's sales were €7,465 million (2014: €6,981 million; 2013: €7,129 million), the Group's income from operations was €331 million (2014: €41 million; 2013: €213 million), the Group's adjusted EBITDA (unaudited) was €739 million (2014: €665 million; 2013: €659 million) and the Group's free cash flow (unaudited) was €632 million (2014: €355 million; 2013: €84 million). For the three-month period ended 31 March 2016, the Group's sales were €1,702 million, the Group's income from operations was €71 million, the Group's adjusted EBITDA (unaudited) was €161 million and the Group's free cash flow (unaudited) was €(78) million. As of 31 March 2016, the Group employed approximately 36,350 FTEs worldwide. See also "—Non-IFRS Financial Measures".

### *Description of segments*

The Group's business is organized and managed on a functional basis by technology and end-markets through four operating business groups: BG Lamps, BG LED, BG Professional and BG Home ("**Business Groups**" or "**BGs**"). BG Lamps comprises the Group's conventional lamps and lamp electronics businesses; BG LED comprises the Group's LED lamps and LED electronics businesses; BG Professional comprises the Group's professional luminaires, lighting systems and services businesses; and BG Home comprises the Group's consumer luminaires and home systems businesses. Each Business Group is responsible for the development of its strategy, its product portfolio and the production and sourcing of its products. Certain costs, not reflected in the financial results of the Business Groups, relating to centralized shared services with respect to, among other functions, legal, finance, human resources, business transformation, strategy and marketing, innovation and operations, are described under the caption "**Other**" in this Prospectus.

In addition, the Group's commercial organization is structured along four geographical market groups to manage its global sales channels: Europe, Americas, Growth Markets and Greater China ("**Market Groups**" or "**MGs**"). The Group manages certain businesses (the "**Global Businesses**") on a global basis rather than on a geographical market basis, including digital projection, licensing programs, entertainment and the Modular and Luceplan brands.

For the three month period ended 31 March 2016, the BG Lamps had the highest sales of any Business Group at €615 million or 36.1% of total Group sales, followed by BG Professional (€601 million or 35.3%), BG LED (€355 million or 20.9%) and BG Home (€124 million or 7.3%). For the same period, BG Lamps had the highest EBITDA (unaudited) of any Business Group at €136 million or 91.3% of total Group EBITDA, followed by BG LED (€24 million or 16.1%), BG Professional (€13 million or 8.7%) and BG Home (€(12) million or (8.1)%).

### **Basis of Preparation of Financial Information**

#### *Basis of preparation of Combined Financial Statements*

The Group historically did not exist as a reporting group and no separate (statutory) consolidated financial statements were therefore prepared. The Combined Financial Statements consist of the activities of the former lighting business of Royal Philips, representing the activities, assets and liabilities of the lighting sector of Royal Philips and the lighting-related activities of the IG&S (Innovation, Group & Services) sector of Royal Philips that relate to or have been assigned to the lighting business of Royal Philips. The Group's business was historically conducted through separate legal entities only engaged in lighting activities as well as through legal entities also engaged in Royal Philips (comprising the consumer lifestyle and healthcare businesses of Royal Philips) or IG&S activities. Approximately 93 legal entities contained both Group and Royal Philips or IG&S activities. In addition, 57 legal entities were dedicated Group legal entities. Accordingly, to allow for the evaluation of the historical financial results of the Group's business access, the Group has prepared the Combined Financial Statements.

The Group has not previously prepared stand-alone financial statements. Therefore, the Combined Financial Statements are the first IFRS financial statements of the Group in which IFRS 1 (*First-time Adoption of International Financial Reporting Standards*) has been applied. IFRS 1 sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements. As

a first-time adopter, the Group has applied the exemption under IFRS 1.D13(a) to deem the cumulative foreign exchange differences to be zero at 1 January 2013 (the date of transition). Since the Group did not previously prepare combined financial statements, and accordingly does not have any previous GAAP for purposes of the Combined Financial Statements, the Group is not required to present reconciliations as per IFRS 1.

The accounting policies applied in the Combined Financial Statements are, to the extent applicable, consistent with accounting policies applied in the consolidated financial statements of Royal Philips. As a result, the Combined Financial Statements have been prepared according to IFRS 1.D16(b) and, apart from the applied exemption, reflect the carrying amounts that are included in the consolidated financial statements of Royal Philips.

The Combined Financial Statements have been prepared based on “carve-out” financial information from the consolidated financial statements of Royal Philips for the purpose of presenting the financial position, results of operations and cash flows of the Group on a stand-alone basis. The Combined Financial Statements were prepared in accordance with IFRS as adopted by the EU. All standards and interpretations issued by the IASB and the IFRS Interpretations Committee effective year-end 2015 have been endorsed by the EU, except that the EU did not adopt some of the paragraphs of IAS 39 applicable to certain hedge transactions. The Group has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by the Group also comply with IFRS as issued by the IASB.

The Combined Financial Statements have been prepared on a going concern basis.

The Combined Financial Statements have been audited by KPMG.

For further detail on the information presented in this section, please see Note C to the Combined Financial Statements.

The following is a summary of how certain items were treated in the preparation of the Combined Financial Statements.

#### *Combined income statements*

Royal Philips historically charged central IG&S costs, such as IT, finance and accounting, HR, real estate and other central support services, to its sectors mainly based on activity (headcount, floor area, etc.), sales or gross margin. As a result of the foregoing, a significant portion of the IG&S costs were already charged to the lighting sector of Royal Philips. The combination of the lighting-related activities of IG&S mainly resulted in additional allocation of previously unallocated costs to the Group. Previously unallocated costs mainly comprise Royal Philips funded research programs, Royal Philips overhead and other items such as restructuring and foreign exchange results. The allocation to the Group of previously unallocated costs is based on activity.

Royal Philips-funded research costs were allocated according to the project-level administration of the business for which the activity has been performed.

Royal Philips overhead includes central finance functions, including tax and treasury, HR, strategy, business transformation, brand, communication & digital, legal and general management, including the Royal Philips Executive Committee. The costs of Royal Philips overhead have been allocated to the Group based on estimated activity levels and the relation of these functions to the Group and Royal Philips.

Other items of IG&S, such as restructuring costs, foreign exchange results and other items, have been allocated to the Group based on its relative share in overall costs of IG&S.

Employee benefit expenses and other operational costs were allocated to the Group based on activity. Depreciation and amortization were assigned to the Group based on the split of related assets.

Interest expense recorded in the Combined Financial Statements does not include any allocation of interest incurred by Royal Philips or interest on funding provided as part of the owner’s net investment.

#### *Combined balance sheets*

The Combined Financial Statements include the assets and liabilities previously reported as part of the Royal Philips lighting sector as well as the lighting-related assets and liabilities of IG&S, which have been determined in the following manner:

- *Property, plant and equipment:* Property plant and equipment held centrally in IG&S has been assigned fully to either Royal Philips or the Group based on main user of the asset.
- *Intangible assets:* Intangible assets held in IG&S mainly comprise IT related assets, which have been allocated between Royal Philips and the Group based on relative usage.



- *Trade and other receivables*: Unless balances could be specifically assigned to either Royal Philips or the Group, these balances were allocated based on relative percentage of net Royal Philips or net Group sales of IG&S, which approximates allocation on an item-by-item basis.
- *Trade and other payables*: Unless payables could be specifically assigned to either Royal Philips or the Group, these balances are allocated to either Royal Philips or the Group based on the relative percentage of the external costs in IG&S, which approximates allocation on an item-by-item basis.
- *Accrued liabilities*: Unless accruals could be specifically assigned to either Royal Philips or the Group, these accruals were allocated based on headcount or using a cost allocation ratio, depending on the specific nature of the balance.

#### *Combined cash flow statements*

The combined statements of cash flow included in the Combined Financial Statements have been prepared using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. For a number of reasons, principally the effects of translation differences and acquisitions and disposals, certain items in the combined statements of cash flows do not correspond to the changes between the combined balance sheets amounts for the respective items. Cash deposits of Royal Philips are pooled and transferred to a central treasury function on a daily basis wherever possible. Amounts for cash, cash equivalents and debt are reflected in the Combined Financial Statements only for those activities of the Group that operated or existed in separate dedicated Group legal entities, during the period of the Combined Financial Statements. For all other activities, changes in cash and debt balances form part of the line item funding by (distribution to) Royal Philips.

Funding by (distribution to) Royal Philips as reflected in the combined statements of cash flows under cash flows from financing activities differs from the movement in funding in the combined statements of changes in business equity, as a result of the following:

- Foreign exchange translation adjustments related to cash balances of dedicated Group entities are reflected in the combined statements of cash flows. For all other activities, funding balances with Royal Philips are presented as part of owner's net investment and accordingly, foreign currency translation adjustments arising upon consolidation of these balances are also included in owner's net investment; and
- Income taxes of all entities of the Group that are calculated on a separate return basis. Due to the fact that certain Group entities did not file separate tax returns, but were part of a Royal Philips consolidated tax group, tax balances are deemed either contributed or distributed to the shareholder, Royal Philips, and have therefore been accounted for as business equity transactions with Royal Philips.

#### *Pensions*

Royal Philips is the sponsor of Royal Philips group defined benefit plans that are externally funded. The net liabilities of these Royal Philips group defined benefit plans are recognized at the Royal Philips level only, and are not included in the Combined Financial Statements. Royal Philips group defined benefit plans are accounted for in accordance with the Royal Philips policy for charging pension costs to the participating entities. The service cost in Royal Philips group defined benefit plans are allocated to the participating companies, including the Group. Cash contributions to externally funded plans occur at Royal Philips and no further cash of the participating companies of the Group is requested other than their share in the cost.

The only Group defined benefit plan is the mandatory end of service benefit of the GLC joint venture in Saudi Arabia, which has no external funding. The liability of such a plan is equal to the defined benefit obligation as determined under the guidance of IAS 19 and as calculated by a local actuary. The liability is included in the balance sheet under provisions.

The Group assumed liabilities from Royal Philips at the date of Separation, including pension obligations. These pension obligations are not reflected in the Combined Financial Statements of the Group as the legal obligation did not exist prior to the date of Separation. For more information on assumed net pension obligations for periods prior to the Separation Date, see "Corresponding pension liabilities assumed as part of the legal separation on 1 February 2016" in Note E.19 to the Combined Financial Statements.

#### *Interest expense*

Cash deposits of Royal Philips are pooled and transferred to a central treasury function on a daily basis where possible. Amounts for cash, cash equivalents and debt are reflected in the Combined Financial Statements only for those activities of the Group which operated or existed in separate legal entities dedicated to the lighting business, during the period of the Combined Financial Statements. For all other activities, cash and debt balances

with Royal Philips have been presented as part of the owner's net investment. The funding structure is therefore not necessarily representative of the financing that would have been reported if the Group operated on its own or as an entity independent from Royal Philips during the periods presented, nor is it indicative of the financing that may arise in the future. In particular, interest expense recorded in the Combined Financial Statements does not include any allocation of interest incurred by Royal Philips or any interest on funding provided to the Group as part of the owner's net investment.

The Group's participation in the Royal Philips funding program is expected to be replaced in the third quarter of 2016 by a funding program operated by Philips Lighting Holding B.V., a subsidiary of the Group, that will provide cash pooling arrangements, clearing and settlement of intra-group and external payables and receivables and financing and liquidity investment opportunities to participating members of the Group.

#### *Income taxes*

The Group legal entities and businesses historically filed a consolidated tax return with other Royal Philips activities or entities for the majority of their jurisdictions. For the purpose of the Combined Financial Statements, income taxes have been computed and reported using the separate return method. The resulting deferred tax assets and liabilities have been accounted for using the asset and liability approach. The Group estimates the income taxes for each of the jurisdictions in which they operate. This involves estimating their actual current tax exposures and assessing temporary and permanent differences resulting from differing treatment of items, such as reserves and accruals, for tax and accounting purposes.

The Group considers the separate tax return method to be reasonable, but it does not necessarily result in the same amounts that would have been incurred if the Group entities were separate taxable entities. The separate taxable entities assumption implies that current and deferred taxes of all Group entities are calculated separately, and any resulting deferred tax assets are evaluated for utilization following this assumption.

In certain jurisdictions, the Group operations were included with other Royal Philips operations in a consolidated Royal Philips tax return. Accordingly, income tax associated with these tax groups was reported in the consolidated financial statements of Royal Philips and paid by Royal Philips. The effects of being included in the Royal Philips consolidated tax returns, including the utilization of any historical net operating losses, have been recorded as part of owner's net investment in business equity. The cash flow statement presents taxes actually paid by tax groups within the Group; the effects of being included in the Royal Philips consolidated tax returns have not been included.

#### ***Basis of preparation of Condensed Combined Interim Financial Statements***

The Condensed Combined Interim Financial Statements consist of the activities of the former lighting business of Royal Philips, representing the activities, assets and liabilities of the lighting sector 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 former lighting business of Royal Philips. The Condensed Combined Interim Financial Statements therefore present the financial position, results of operations and cash flows of the Group as of and for the three month period ended 31 March 2016 on a combined basis.

On 1 February 2016, Royal Philips and the Group entered into a master 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 the Group thereafter. See "Separation" for more information.

The Condensed Combined Interim Financial Statements have been prepared under IFRS, as endorsed by the EU and in accordance with IAS 34 (Interim Financial Reporting).

The Condensed Combined Interim Financial Statements are unaudited and does not contain all the information and disclosures included in the Combined Financial Statements, and should be read in conjunction with the Combined Financial Statements.

The accounting policies applied in the Condensed Combined Interim Financial Statements are consistent with those applied in the Combined Financial Statements. Refer to Note D.26 to the Combined Financial Statements, which sets out IFRS accounting standards to be adopted as from 2016 and onwards that may be the most relevant to the Group and which did not materially impact the Condensed Combined Interim Financial Statements.

Transactions and balances previously reported as part of the continuing operations of the former lighting business of Royal Philips have been directly attributed to the Group. However, transactions and balances previously reported as part of the IG&S sector of Royal Philips have been attributed to the Group 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.

The preparation of the Condensed Combined Interim Financial Statements required 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 Combined 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. See “—Critical Accounting Estimates” for more information.

EY has issued a review report of the Condensed Combined Interim Financial Statements as of and for the three month period ended 31 March 2016.

### Key Financial Performance Measures

The following table sets forth the key financial performance measures of the Group for the three month periods ended 31 March 2016 and 2015 and for the years ended 31 December 2015, 2014 and 2013.

<i>In € millions, except percentages</i>	<b>For the three month period ended 31 March (unaudited)</b>		<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Sales	1,702	1,727	7,465	6,981	7,129
Comparable sales growth (%) (unaudited) <sup>(1)</sup>	(1.3)%	—	(3.5)%	(0.8)%	—
Adjusted gross margin ratio (%) (unaudited) <sup>(2)</sup>	37.6%	36.8%	36.6%	36.9%	36.4%
Income from operations	71	55	331	41	213
EBITA (unaudited) <sup>(3)</sup>	100	81	438	149	380
Adjusted EBITA (unaudited) <sup>(4)</sup>	121	110	547	476	453
Adjusted EBITA ratio (%) (unaudited) <sup>(5)</sup>	7.1%	6.4%	7.3%	6.8%	6.4%
EBITDA (unaudited) <sup>(6)</sup>	149	128	646	422	603
Adjusted EBITDA (unaudited) <sup>(7)</sup>	161	155	739	665	659
Adjusted EBITDA ratio (%) (unaudited) <sup>(8)</sup>	9.5%	9.0%	9.9%	9.5%	9.2%
Free cash flow (unaudited) <sup>(9)</sup>	(78)	156	632	355	84

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See “—Non-IFRS financial measures—Comparable sales growth (unaudited)” for more information on non-IFRS financial measures and reconciliation of comparable sales growth for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

(2) The Group defines adjusted gross margin ratio as gross margin, excluding restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, divided by sales. See “—Non-IFRS financial measures—Adjusted gross margin ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of adjusted gross margin ratio for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. See “—Non-IFRS financial measures—Adjusting items” for more information on restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales.

(3) The Group defines EBITA as income from operations excluding amortization related to acquisition-related intangible assets. See “—Non-IFRS financial measures—EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of EBITA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

(4) The Group defines adjusted EBITA as EBITA excluding restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, selling expenses, R&D expenses and general and administrative expenses. See “—Non-IFRS financial measures—EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of adjusted EBITA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. See “—Non-IFRS financial measures—Adjusting items” for more information on restructuring costs, acquisition-related charges and other incidental charges.

(5) The Group defines adjusted EBITA ratio as adjusted EBITA divided by sales (or sales including intersegment in the case of adjusted EBITA ratio of Business Groups). See “—Non-IFRS financial measures—EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of adjusted EBITA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. See “—Non-IFRS financial measures—Adjusting items” for more information on restructuring costs, acquisition-related charges and other incidental charges.

(6) The Group defines EBITDA as income from operations excluding depreciation, amortization and impairments of non-financial assets, see Note E.7 to the Combined Financial Statements. See “—Non-IFRS financial measures—EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of EBITDA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

(7) The Group defines adjusted EBITDA as EBITDA excluding restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, selling expenses, R&D expenses and general and administrative expenses. See “—Non-IFRS financial measures—EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of adjusted EBITDA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. See “—Non-IFRS financial measures—Adjusting items” for more information on restructuring costs, acquisition-related charges and other incidental charges.

- (8) The Group defines adjusted EBITDA ratio as adjusted EBITDA divided by sales. See “—Non-IFRS financial measures—EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)” for more information on non-IFRS financial measures and reconciliation of adjusted EBITDA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. See “—Non-IFRS financial measures—Adjusting items” for more information on restructuring costs, acquisition-related charges and other incidental charges.
- (9) The Group defines free cash flow as net cash provided by operations minus net capital expenditures, which the Group defines as additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Free cash flow as calculated by the Group includes interest paid and income taxes paid. See “—Non-IFRS financial measures—Free cash flow (unaudited)” for more information on non-IFRS financial measures and reconciliation of free cash flow for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

## **Material Factors Affecting Results of Operations**

The Group believes that the factors discussed below have had a material impact on the development of the Group’s results of operations in the periods for which financial information is presented in this Prospectus.

### ***General economic conditions***

Because the Group is active in a global business, its results of operations are affected by general global and regional economic conditions. The Group’s business environment is influenced by both political and economic conditions in the individual domestic markets in which the Group operates as well as general global economic and political developments. Demand for the Group’s products is partly cyclical, with a significant portion of the Group’s business exposed to changes in construction activity, consumer spending and the general economic environment. This applies in particular to the Group’s professional luminaires, home systems and LED electronics businesses. As the Group’s main markets are in Europe, the United States, Asia (including the Middle East and Turkey) and Latin America, economic developments in these regions have and are expected to continue to have the highest impact on the Group’s business activities.

### ***Transition from conventional lighting technologies to LED lighting technologies***

Because the Group’s business is primarily focused on the sale of lamps, luminaires, lighting systems and lighting services in the general lighting market, its results of operations depend on demand for these products and services. A significant but decreasing portion of the Group’s sales are derived from conventional lighting technologies (*i.e.*, 57% of the Group’s sales in 2015 compared to 74% in 2013), while a significant and increasing portion are derived from LED lighting technologies (*i.e.*, 43% of the Group’s sales in 2015 compared to 26% in 2013). LED lamps are increasingly replacing conventional lamps such as incandescent and fluorescent lamps as a general light source. The transition of the general lighting market in which the Group operates from products based on conventional lighting technologies to products, systems and services based on LED lighting technologies is driven by a number of factors, including technological developments, consumer demand and government measures to support energy-saving lighting technology. The transition from conventional lighting technologies to LED lighting technologies will have a fundamental effect on the Group, including as a result of the following:

- *Cash flow from conventional-related sales.* The Group’s conventional lamps business has historically been the greatest contributor to the Group’s cash generation, with BG Lamps accounting for EBITDA of €492 million, €474 million and €690 million for the years ended 31 December 2015, 2014 and 2013, respectively. BG Lamps also maintained its level of free cash flow excluding restructuring costs as a percentage of BG Lamps sales during this period. During the transition from conventional lighting technologies to LED lighting technologies, the Group aims to leverage its conventional lamp business and carry on managing this business for cash optimization by continuing to pro-actively manage costs through manufacturing footprint rationalization.
- *Changes to the business model.* Rapid technological change and the transition from conventional lighting technologies to LED lighting technologies have also had, and are expected to continue to have, significant effects on the Group’s business model. In particular, the longer life expectancy of LED lamps as compared to conventional lamps is expected to lead to lower replacement demand for lamps in the future. As a result, replacements will not only be driven by technical lifespan, but also by refurbishment cycles (in which luminaires may be replaced together with the light source). The Group is transforming from a traditional manufacturing company predominantly focused on conventional lighting products into an “asset-light” manufacturer and service provider focused on products, systems (including connected lighting systems) and services based on LED lighting technology. In particular, the Group’s sales from systems and services grew by double-digits for the year ended 31 December 2015. These business model adjustments have required, and are expected to continue to require, changes to, among other areas, the Group’s sales and marketing, R&D, supply chain management and procurement processes, with corresponding impacts on the business, results of operations, financial condition and prospects of the Group.



- *Cost savings initiatives.* The Group's cost savings initiatives are also driven by the transition from conventional lighting technologies to LED lighting technologies. These cost savings initiatives have historically focused on (i) manufacturing footprint rationalization (to address the decline of conventional lamps), (ii) reduction of bill-of-material costs (to address price erosion, particularly in LED lamps), and (iii) productivity and efficiency improvements (to address generally lower margins in LED lamps). In particular, a significant portion of the Group's operational manufacturing plants are used to produce conventional lamps and, given the Group's expectation of a continuous decline in the market for conventional lighting technologies and continued competition in the market for LED lighting, the Group expects that further cost savings, including by closing or restructuring remaining plants, will be required. In addition, for the years ended 31 December 2013 to 2015, margin improvement in the Group's LED lamps was largely driven by bill-of-materials savings offsetting price erosion. The balance between price erosion in the market for the Group's products and cost savings, efficiency improvements and price erosion in bill-of-materials is expected to continue to impact the Group's business, results of operations, financial condition and prospects.

### ***Foreign currency exchange rates***

While the Group reports in euros, the Group is engaged in an international business that operates in, and makes sales into, both developed and emerging market countries with many different currencies. For the year ended 31 December 2015, 30% of the Group's sales were denominated in U.S. dollars (2014: 27%; 2013: 27%), 26% of the Group's sales were denominated in euro (2014: 29%; 2013: 30%) and 6% of the Group's sales were denominated in Chinese renminbi (2014: 7%; 2013: 8%). Accordingly, movements in foreign currency exchange rates against the euro may result in an adverse change in the reported income or balance sheet items from non-euro operations. In addition, the Group's sourcing and manufacturing spend in a particular foreign currency may not match the Group's sales in that foreign currency. In particular, the Group's sourcing and manufacturing spend in U.S. dollars exceeded its sales in U.S. dollars for the year ended 31 December 2015, resulting in a short position in U.S. dollars. As a result of the transition from conventional lighting technologies to LED lighting technologies and the corresponding developments in the Group's business and operations, the Group expects that sourcing and manufacturing spend in U.S. dollars will continue to increase relative to the Group's sales in U.S. dollars. The Group's sourcing and manufacturing spend in Chinese renminbi also exceeded sales in Chinese renminbi for the year ended 31 December 2015, resulting in a short position in Chinese renminbi. Accordingly, any adverse change in the foreign currency exchange rates for U.S. dollars, Chinese renminbi or other currencies where sourcing and manufacturing spend does not match sales could have an adverse impact on the Group's reported costs of goods sold or income from operations as compared to competitors which incur costs and generate sales in the same currency, and therefore have an impact on the competitive position of the Group. Foreign currency exchange rate fluctuations may have different impacts on results of operations from period to period. For instance, foreign currency exchange rate fluctuations had a positive impact on adjusted EBITA for the three month period ended 31 March 2015 due to a non-recurring working capital revaluation, while adjusted EBITA for the three month period ended 31 March 2016 was negatively impacted by devaluations of currencies against the euro. The Group's foreign currency exchange rate risk management policy is aimed at reducing the volatility of EBITA through active management of pricing in markets affected by high foreign currency exchange rate volatility, matching revenues and manufacturing spend to the extent practicable, adjusting the Group's foreign currency footprint in the long-term and hedging foreign currency exchange rate volatility. See Note E.30 to the Combined Financial Statements for more information on the foreign currency exchange rate risks to which the Group may be exposed.

### ***Business transformation programs***

The Group's results of operations have historically been impacted by certain business transformation programs intended to ensure sustainable performance by transforming processes, operations, organization and culture, particularly for certain parts of BG Professional in North America and BG Home in Europe and China. Because the measures taken in connection with such business transformation programs may be significant, including manufacturing footprint rationalization, changes in marketing channel approach, improvements in IT systems, reductions in number of local brands, portfolio pruning and headcount reductions, such business transformation programs have resulted in significant costs as well as disruption to the Group's business. The Group expects that its results of operations will continue to be impacted by both short-term costs of implementation and long-term benefits of the Group's historical and future business transformation programs.

### ***Restructuring costs***

The Group's ongoing business transition from conventional lighting technologies to LED lighting technologies and business transformation programs have required significant restructuring costs. For more information on the Group's restructuring activities, see "—Transition from conventional lighting technologies to



LED lighting technologies” and “—Business transformation programs”. The Group’s restructuring costs were €(18) million and €(28) million in the three month periods ended 31 March 2016 and 2015, respectively, and €(90) million, €(261) million and €(79) million for the years ended 31 December 2015, 2014 and 2013, respectively, which primarily related to manufacturing footprint rationalization in BG Lamps and BG Professional in response to the transition from conventional lighting technologies to LED lighting technologies. The Group expects to incur restructuring costs and acquisition-related charges of approximately €60 million for the three month period ending 30 June 2016, of which approximately one-third relates to restructuring plans which were announced by the Group as of the date of the issuance of the Condensed Combined Interim Financial Statements. The Group recognizes a provision for restructuring costs when the Group has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that they will carry out the restructuring by starting to implement the plan or announcing the main features of the plan to those impacted by it. The Group accounts for restructuring costs in the income statement under cost of sales, selling expenses, R&D expenses and general and administrative expenses, depending on the nature of the restructuring cost. However, restructuring costs will be recognized in the cash flow statement only when the relevant payments are actually made and may therefore occur in future periods. The Group expects to incur restructuring costs in the future, including in connection with the continued transition from conventional lighting technologies to LED lighting technologies.

Based on its current business plan, including assumptions as to key economic developments and market developments, the Group currently estimates that over the medium term, annual total restructuring costs incurred will amount to between approximately 1.5% and 2.0% of the Group’s annual total sales in each financial year, with the majority of these restructuring costs expected to relate to BG Lamps and BG Professional. The Group currently expects that annual total restructuring costs as a percentage of sales will decline below these levels over the long term, with annual total restructuring costs expected to amount to between approximately 0.5% and 1.0% of the Group’s annual total sales in each financial year. Included in these estimates of Group total restructuring costs, the Group expects to incur total restructuring costs in relation to BG Lamps of approximately €(0.3) billion over the medium term, primarily in relation to manufacturing footprint rationalization and restructuring of R&D and sales activities. The Group currently does not expect to have to restructure the remaining BG Lamps production facilities over the long term. However, if the Group were to decide to restructure all remaining BG Lamps production facilities, it estimates that additional restructuring costs would amount to approximately €(0.2) billion. Restructuring costs in relation to BG Lamps amounted to €(52) million, €(154) million and €(21) million for the years ended 31 December 2015, 2014 and 2013, respectively. For the years ended 31 December 2013 to 2015, the actual restructuring costs incurred by the Group in connection with restructuring activities in BG Lamps were consistent with the amounts budgeted by the Group in connection with such restructuring activities. However, estimates of any future restructuring costs may change, including materially, over time in response to changes in the Group’s business plan or strategy, external economic or market developments, or any other factors.

#### ***Acquisitions and divestments***

The Group’s results of operations have historically been influenced by acquisitions and divestments of certain businesses. In particular, the Group’s acquisition of a 51% interest in GLC in Saudi Arabia was completed on 2 September 2014. GLC was immediately consolidated as part of the Group within BG Professional. The interest in GLC was acquired for a total amount of €146 million (on a cash-free, debt-free basis) and taking into account closing conditions, the Group paid an amount of €148 million. The overall cash position of GLC on the transaction date was €23 million, resulting in a net cash outflow related to this acquisition of €125 million. Acquisition-related charges that were recognized in general and administrative expenses amounted to €(4) million. For the period from 2 September 2014 to 31 December 2014, GLC, which became Philips Lighting Saudi Arabia, contributed sales of €86 million. During the year ended 31 December 2014, the Group also disposed of certain factories that were intended to be closed as part of the business transformation program of BG Professional in North America.

#### **Factors Affecting Comparability of Financial Information**

The financial and operating data and other information included in this Prospectus reflect the financial position, financial performance, cash flows and historical information of the Group based on “carve-out” financial information for the three month period ended 31 March 2015 and the years ended 31 December 2015, 2014 and 2013. The financial and operating data and other information for the three month period ended 31 March 2016 reflect the financial position, financial performance, cash flows and historical information of the Group on both “carve-out” financial information and on a historical basis. Following the Offering, the Group’s financial and operating data will be presented to reflect the Group’s actual financial position, financial performance, cash flows and historical information. As a result, the Group’s reported financial condition and results of operations in any given period may not be comparable with the Group’s financial condition and results

of operations in the future. For a discussion of the presentation of the Group's historical financial information included in this Prospectus, see "—Basis of Preparation of Financial Information".

### ***Separation costs***

In the three month period ended 31 March 2016, the Group incurred certain costs related to the Separation. The Separation Agreement provides that fees of professional advisors (such as financial and legal advisors as well as accounting services providers) who have been engaged by Royal Philips prior to the Separation Date to advise on and assist with the preparation and implementation of the Separation are for the account of Royal Philips. As a result, Royal Philips has incurred the majority of the costs related to the Separation and preparation of the Offering, and such costs are not reflected in the Combined Financial Statements. The net expenses incurred by the Group as a result of the Separation were €(2) million in the three month period ended 31 March 2016, which are included in the amounts recognized as restructuring costs, acquisition-related charges and other incidental charges. In total, the Group expects to incur approximately €60 million to €70 million of costs in connection with the Separation for the year ending 31 December 2016, of which a substantial part is in connection with developing standalone IT systems. See "Separation—Transitional Services".

### ***Allocated costs***

The Group, comprising the former lighting sector of Royal Philips and the lighting-related activities of Royal Philips IG&S, historically did not exist as a reporting group and no separate (statutory) consolidated financial statements were prepared. The Separation therefore involved the split and allocation of historical IG&S costs to each member of the Group. Because a significant majority of IG&S costs were historically charged to the Group based on activity (headcount, floor area, etc.) or sales, the Separation primarily resulted in the additional allocation to the Group of previously unallocated costs. See "—Basis of Preparation of Financial Information—Basis of preparation of Combined Financial Statements—Combined income statement" and Note C.1 to the Combined Financial Statements. The Group compared the results of the additional allocation of previously unallocated costs relating to overhead functions (in particular, number of employees) against the results of a bottom-up analysis of overhead functions expected to be required for the stand-alone requirements of the Group to ensure the allocation was reasonable. The additional allocation of costs reflected in the Combined Financial Statements were €153 million, €158 million and €181 million for the years ended 31 December 2015, 2014 and 2013, respectively, in each case on an earnings before interest and tax basis and including depreciation, amortization and impairments of non-financial assets. The Combined Financial Statements also reflect carve-out adjustments of €(3) million, €14 million and €(20) million for the years ended 31 December 2015, 2014 and 2013, respectively. These carve-out adjustments are related to presenting the Group as a stand-alone entity, including reversal of Royal Philips hedging contracts, unwinding of credits related to allocated costs as well as accounting corrections to reflect the lower materiality of results. The Group believes the allocation methods applied in the Combined Financial Statements to be a reasonable reflection of the utilization of services provided by Royal Philips. However, different allocation methods could have resulted in different outcomes. The allocation methods are therefore not necessarily representative of the financial positions, results of operations or cash flows that would have been reported if the Group had operated on its own or as an entity independent from Royal Philips during the periods presented, nor are they indicative of the financial positions, results of operations or cash flows that may arise in the future. The Combined Financial Statements include the following allocations of IG&S costs:

- *Allocated overhead costs:* The Combined Financial Statements reflect the Group's share of centrally managed costs and expenses incurred by Royal Philips, such as sales office support in foreign locations, shared accounting services, HR and benefit management, treasury, and other corporate general and administrative expenses.
- *Allocated IT costs:* The Combined Financial Statements reflect the IT costs allocated to the Group by Royal Philips, including IT costs associated with licenses for IT used by the Group as well as operation and maintenance costs related to these IT licenses.
- *Allocated research costs:* The Combined Financial Statements reflect Royal Philips-funded research costs, which were allocated to the Group according to the project-level administration of the business for which the activity had been performed.

From the Separation Date, the Group will no longer be allocated IG&S costs, instead actual costs to the Group of accessing such services will be recorded. The Combined Interim Financial Statements, however, reflect allocated IG&S costs through the Separation Date and actual costs to the Group of accessing such services following the Separation Date. Following the Separation Date, these services will be sourced in part pursuant to the TSA, TSLAs and IT TLSA. See "Separation" for more information.

### ***Financing costs***

The Group has historically financed its capital expenditures, working capital requirements and acquisitions through a combination of cash flow from operating activities and short-term financing from Royal Philips. The Group is expected to be included in the Royal Philips funding program, which includes certain cash pooling arrangements, until the third quarter of 2016. The Combined Financial Statements and the Condensed Combined Interim Financial Statements do not include any costs attributable to the Group from interest payments on Royal Philips' long-term capital markets funding or bank facilities or benefits from the funding from Royal Philips' capital markets instruments and revolving credit facility. Following the completion of the Offering, the Group expects to finance its capital expenditures, working capital requirements and acquisitions through cash flows from operating activities, cash and cash equivalents on balance sheet following draw down of its new five-year approximately €1,200 million equivalent Term Loan Facility and the application of proceeds thereof, and its new five-year €500 million equivalent Revolving Credit Facility. On or prior to the Settlement Date, the Group expects to draw down approximately \$500 million and approximately €740 million under the Term Loan Facility, for an aggregate of approximately €1,200 million equivalent drawn under the Term Loan Facility in U.S. dollars and euros. See "Capitalization and Indebtedness" for more information on the effect of drawdown of the Term Loan Facility. The Group does not expect to drawdown any amounts under the Revolving Credit Facility immediately. The initial interest rate on borrowings under the Term Loan Facility will be EURIBOR or LIBOR plus a margin of 0.75% per annum and the initial interest rate on any borrowings under the Revolving Credit Facility will be EURIBOR or LIBOR plus a margin of 0.45% per annum, with a commitment fee equal to 35% of the applicable margin under the Revolving Credit Facility. The Group expects the initial interest and commitment fee payments (including upfront fee amortization) under these facilities to be approximately €15 million total on an annual basis, subject to the Group's choice from time to time to make drawdowns under the Revolving Credit Facility. See "—Financing Structure Following the Offering" for further details.

### ***Pensions***

Employees of the Group have historically participated in Royal Philips-sponsored pension plans in which the Group and other Royal Philips businesses participated. The costs of pension benefits with respect to the Group's employees participating in these plans have been allocated to the Group based upon historical accrual, compensation, headcount and allocation of personnel. These allocations are reflected in the Combined Financial Statements. For pension plans in which only the Group's employees participate (dedicated plans), the related costs, assets and liabilities have been included in the balance sheets included in the Combined Financial Statements. The Group's liability amounts as reflected in the Combined Financial Statements were €(43) million, €(40) million and €(23) million as of 31 December 2015, 2014 and 2013, respectively, which do not include any additional liabilities transferred to the Group as part of the Separation. The net balance of defined-benefit pension plans attributable to the Group, including additional assumed net pension obligations for the periods prior to Separation Date, which are not reflected in the Combined Financial Statements, were €(607) million, €(524) million and €(449) million as of 31 December 2015, 2014 and 2013, respectively. See "Management, Employees and Corporate Governance—Pension Schemes" for more information about the Group's defined benefit plans. As part of the Separation, significant pension assets and liabilities have been legally transferred to the Group on a country-by-country basis, based on the relationship between pension liabilities and the respective businesses of Royal Philips and the Group or, if such relationship was not decisive, on a variety of legal, fiscal, financial and practical considerations. As a result of the transfer, the Group recorded accrued pension costs of €224 million, a provision of €271 million related to unfunded pension liabilities and a provision of €112 million related to retiree medical liabilities at the Separation. The transfer also resulted in the Group recognizing €122 million in deferred tax assets relating to the transferred pension deficit. As of 31 March 2016, the net pension liability (including retiree medical liabilities) amounts to €587 million and the related deferred tax assets arising from the transferred pension liabilities have decreased to €101 million. See Note E.19 to the Combined Financial Statements and Note 13 to the Condensed Combined Interim Financial Statements for more information on post-employment benefits.

### ***Philips brand***

Following completion of the Offering, the Group will have the right to use the Philips brand name for a period of ten years commencing on the Effective Time. The term may be extended with two periods of five years if certain financial targets in terms of net turnover are met and provided that the Group as licensee has acted in compliance with the conditions of the TMLA. See "Separation—Intellectual Property" for more information. The Group has historically used the Philips brand name, but in the Combined Financial Statements, no costs have been incurred for the usage of the brand name. Instead, the Group has historically incurred costs related to the promotion of the Philips brand which have been allocated to the Group under IG&S. Such allocations are reflected in the Combined Financial Statements. Under the TMLA, the Group is obliged to pay a royalty on the net turnover of all licensed products and services. The applicable royalty percentages are 0.6% for the first five

years, 0.7% for the second five years and 1% after the tenth year. For the first ten years, an annual minimum guaranteed royalty payment of €30 million applies. Thereafter, an annual minimum guaranteed royalty payment of €20 million applies. The Group expects that the net effect of the royalty payment to be made to Royal Philips under the TMLA will be approximately €20 million higher on an annual basis than the historical costs allocated to the Group for promotion of the Philips brand that are reflected in the Combined Financial Statements. Costs incurred before the Separation related to the promotion of the Philips brand are recognized as selling expenses. Royalty payments made to Royal Philips under the TMLA following the Separation are also recognized as selling expenses.

### **Description of Key Line Items**

Set forth below is a brief description of the composition of certain line items of the consolidated income statement. This description should be read in conjunction with “—Critical Accounting Estimates” and Note D to the Combined Financial Statements.

#### ***Sales***

Revenue from the sale of goods in the course of the ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue for sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing involvement with goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For consumer-type products these criteria are met at the time the product has been shipped and delivered to the customer and title and risk have passed to the customer (depending on the delivery conditions) and acceptance of the product has been obtained. Examples of delivery conditions are Free on Board point of delivery and Costs, Insurance Paid point of delivery, where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where title and risk for the goods pass to the customer.

Revenues of transactions that have separately identifiable components are recognized separately based on their relative fair values.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed. Return policies are typically based on customary return arrangements in local markets.

In case of loss under a sales agreement, the loss is recognized immediately.

Shipping and handling billed to customers is recognized as revenues. Expenses incurred for shipping and handling in respect of internal movements of goods are recorded as cost of sales. Expenses incurred for shipping and handling related to sales to third parties are recorded as selling expenses. When shipping and handling is part of a project and billed to the customer, the related expenses are recorded as cost or sales.

Service revenue related to repair and maintenance activities for goods sold is recognized ratably over the service period or as services are rendered. A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by the Group with respect to the products. For certain products, the customer has the option to purchase an extension of the warranty, which is subsequently billed to the customer. Revenue recognition occurs on a straight-line basis over the contract period.

The Group recognizes service revenue related to value-added services ratably over the service period or as services are rendered. Value-added services of the Group include professional services such as audit consulting, lifecycle services such as maintenance and asset management, and managed services tied to performance benchmarks. Revenue from sales of systems, which are comprised of both sales of products and value-added services of the Group, is recognized when the Group can reliably measure the amount of revenue and the associated cost related to the stage of completion of a contract or transaction, and the recovery of the consideration is considered probable.

Royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis based on actual or reliably estimated sales made by the licensees.



Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs for which they are intended to compensate.

Sales of each of the Group's operating segments is defined as any sales by the relevant Business Group to any third party, but excludes sales to any other Business Group.

Sales including intersegment of each of the Group's operating segments is defined as any sales made by the relevant Business Group, including sales to any other Business Group.

### ***Cost of sales***

Cost of goods sold and services rendered includes the production costs of the goods sold and services rendered. All production-related costs such as costs of raw materials, labor costs, costs for supplies, merchandise for resale, order-specific development and design costs as well as energy costs for use and depreciation are included. Administrative functions within operations and plants are also reported as cost of goods sold and services rendered, as are warehousing and distribution. Expenses incurred for shipping and handling in respect of internal movements of goods are recorded as cost of sales. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as cost or sales. Depreciation of property, plant and equipment is primarily included in cost of sales. Amortizations of the categories of other intangible assets are reported in cost of sales for technology-based and other intangible assets. Changes in the value of on-balance-sheet foreign-currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under cost of sales.

Cost of sales includes certain amounts which the Group defines as restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales.

### ***Gross margin***

Gross margin is calculated as sales less cost of sales.

### ***Selling expenses***

Selling expenses covers all sales personnel, distribution, marketing and commission cost as well as regional market overheads. Shipping and handling costs related to sales to third parties are recorded as selling expenses. Advertising and promotion costs are included in selling expenses. Amortizations of the categories of other intangible assets are reported in selling expenses for brand names and customer relationships. Bad debt expenses are recorded as part of selling expenses.

Selling expenses includes certain amounts which the Group defines as restructuring costs, acquisition-related charges and other incidental charges attributable to selling expenses. Costs incurred before the Separation related to the promotion of the Philips brand are recognized as selling expenses. Royalty payments made to Royal Philips under the TMLA following the Separation are also recognized as selling expenses.

### ***Research and development expenses***

The most significant component of R&D spending is personnel expenses. All research costs are expensed as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible, cost can be reliably measured and the Group has sufficient resources, the intention to complete development and the intention to use or sell the asset.

The development expenditure capitalized comprises all directly attributable costs (including the cost of materials and direct labor). Other development expenditures and expenditures on research activities are recognized in the income statement. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the income statement on a straight-line basis over the estimated useful lives of the intangible assets.

R&D expenses includes certain amounts which the Group defines as restructuring costs, acquisition-related charges and other incidental charges attributable to R&D expenses.

### ***General and administrative expenses***

General administrative expenses include headquarter functions which are not allocable to other functions – such as administrative functions in units dedicated solely to production, research and sales – as well as executive management costs.



General and administrative expenses includes certain amounts which the Group defines as restructuring costs, acquisition-related charges and other incidental charges attributable to general and administrative expenses.

#### ***Impairment of goodwill***

Goodwill is not amortized, but tested for impairment annually and whenever impairment indicators require impairment testing. The Group performed and completed annual impairment tests in the same quarter of all years presented in the income statement included in the Combined Financial Statements. An impairment loss is recognized in the income statement whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and its fair value less costs to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset.

#### ***Other business income and other business expenses***

These items comprise all other income and expense that is not related to the Group's core business but that arises as part of its operating activities. This includes, among other things, gains and losses on sales of property, plant and equipment and intangibles and on disposals of businesses and the creation and reversal of accruals for other expenses and certain costs in connection with the initial stock exchange listing.

#### ***Income from operations***

Income from operations is gross margin minus selling expenses, R&D expenses, general and administrative expenses, impairment of goodwill and other business expenses plus other business income.

#### ***Financial income and financial expenses***

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, net gains on the disposal of available-for-sale financial assets, net fair value gains on financial assets at fair value through profit and loss, net gains on the re-measurement to fair value of any pre-existing available-for-sale interest in an acquisition, and net gains on hedging instruments that are recognized in the income statement.

Interest income is recognized on accrual basis in the income statement, using the effective interest method. Dividend income is recognized in the income statement on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Financial expense comprises interest expenses on borrowings and on the net defined benefit plans, unwinding of the discount of provisions and contingent consideration, losses on disposal of available-for-sale financial assets, net fair value losses on financial assets at fair value through profit and loss, impairment losses recognized on financial assets (other than trade receivables), net interest expense related to defined benefit plans and net losses on hedging instruments that are recognized in the income statement.

#### ***Income tax expense***

Tax expenses recorded in the Combined Financial Statements include income taxes for the Group on a separate returns basis for the years ended 31 December 2015, 2014 and 2013, *i.e.*, assuming that the tax groups with Philips did not exist and that the Group companies would have been taxed on a stand-alone basis. Tax expenses recorded in the Condensed Combined Interim Financial Statements also include income taxes for the Group on a separate returns basis for the three month periods ended 31 March 2016 and 2015. See “—Basis of Preparation of Financial Information—Basis of preparation of Combined Financial Statements—Income taxes”.

#### ***Net income (loss)***

Net income (loss) is derived by deducting income taxes from income (loss) before income taxes. It also includes non-controlling interests. The net income (loss) attributable to non-controlling interests and that is attributable to Royal Philips is reported separately in the income statement.

## Results of Operations

The following table sets out the Group's combined results of operations for the periods indicated.

<i>In € millions</i>	For the three month periods ended 31 March (unaudited)		For the year ended 31 December		
	2016	2015	2015	2014	2013
Sales	1,702	1,727	7,465	6,981	7,129
Cost of sales	(1,075)	(1,106)	(4,810)	(4,671)	(4,573)
<b>Gross margin</b>	<b>627</b>	<b>621</b>	<b>2,655</b>	<b>2,310</b>	<b>2,556</b>
Selling expenses	(430)	(430)	(1,751)	(1,657)	(1,722)
Research and development expenses	(90)	(88)	(366)	(395)	(375)
General and administrative expenses	(49)	(50)	(233)	(223)	(233)
Impairment of goodwill	(2)	—	—	(2)	(26)
Other business income	18	2	48	13	31
Other business expenses	(3)	—	(22)	(5)	(18)
<b>Income from operations</b>	<b>71</b>	<b>55</b>	<b>331</b>	<b>41</b>	<b>213</b>
Financial income	4	—	3	3	3
Financial expenses	(21)	(2)	(11)	(9)	(4)
<b>Income before taxes</b>	<b>54</b>	<b>53</b>	<b>323</b>	<b>35</b>	<b>212</b>
Income tax expense	(40)	(23)	(83)	(66)	(45)
<b>Income after taxes</b>	<b>14</b>	<b>30</b>	<b>240</b>	<b>(31)</b>	<b>167</b>
Results relating to investments in associates	—	—	—	2	1
<b>Net income (loss)</b>	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>

### Comparison of Results of Operations for the Three Month Periods Ended 31 March 2016 and 31 March 2015

The Group's combined results of operations in the three month period ended 31 March 2016 compared to the three month period ended 31 March 2015 are discussed below. The discussion includes the results of the Business Groups and Market Groups.

#### Sales

Sales for the three month period ended 31 March 2016 were €1,702 million, compared to €1,727 million for the three month period ended 31 March 2015, a decrease of €25 million, or (1.4)%. Nominal sales were slightly impacted by foreign exchange movements, with the Group's sales experiencing unfavorable foreign currency effects of €3 million for the three month period ended 31 March 2016, or (0.1)%, mainly arising from the weakening of emerging market currencies against the euro, including the Brazilian real and the Argentine peso, which were partly offset by the strengthening of the U.S. dollar and the Chinese renminbi against the euro. Comparable sales growth from the three month period ended 31 March 2015 to the three month period ended 31 March 2016 was (1.3)%. The decrease in comparable sales was primarily attributable to lower sales of conventional lighting products by BG Lamps, which were offset in part by increased sales of LED lighting products by BG LED, as a result of the transition from conventional to LED lighting.

#### Sales by Business Group

The following table presents the Group's sales by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	For the three month periods ended 31 March (unaudited)		Comparable Sales Growth <sup>(1)</sup>	Effects of Currency Movements	Effects of Changes in Consolidation	Nominal Sales Growth
	2016	2015				
BG Lamps	615	727	(14.5)%	(0.9)%	—	(15.4)%
BG LED	355	275	28.8%	0.3%	—	29.1%
BG Professional	601	610	(2.1)%	0.6%	—	(1.5)%
BG Home	124	112	10.7%	—	—	10.7%
Other	7	3	133.3%	—	—	133.3%
<b>Total</b>	<b>1,702</b>	<b>1,727</b>	<b>(1.3)%</b>	<b>(0.1)%</b>	<b>—</b>	<b>(1.4)%</b>

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See "—Non-IFRS financial measures" for more information on non-IFRS financial measures and reconciliation of comparable sales growth by Business Group for the three month periods ended 31 March 2016 and 2015.

## Sales by Market Group

The following table presents the Group's sales by Market Group for each of the periods indicated.

In € millions, except percentages	For the three month periods ended		Comparable Sales Growth <sup>(1)</sup>	Effects of Currency Movements	Effects of Changes in Consolidation	Nominal Sales Growth
	31 March (unaudited)					
	2016	2015				
Europe .....	533	561	(4.3)%	(0.2)%	(0.5)%	(5.0)%
Americas .....	555	538	2.8%	0.4%	—	3.2%
Growth Markets .....	350	369	(3.4)%	(2.2)%	0.5%	(5.1)%
Greater China .....	136	138	(2.9)%	2.2%	(0.7)%	(1.4)%
Global Businesses .....	128	121	2.4%	1.7%	1.7%	5.8%
<b>Total</b> .....	<b>1,702</b>	<b>1,727</b>	<b>(1.3)%</b>	<b>(0.1)%</b>	<b>—</b>	<b>(1.4)%</b>

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of comparable sales growth by Market Group for the three month periods ended 31 March 2016 and 2015.

Sales in Europe for the three month period ended 31 March 2016 were €533 million, compared to €561 million for the three month period ended 31 March 2015, a decrease of €28 million, or (5.0)%. Nominal sales were negatively impacted by unfavorable currency effects mainly driven by the weakening of the British pound against the euro. Comparable sales growth in Europe for the three month period ended 31 March 2016 was (4.3)%. The decrease in comparable sales was primarily attributable to lower sales of BG Lamps and BG Professional, which were partly offset by an increase in sales of BG LED, in each case due to the transition from conventional to LED lighting.

Sales in Americas for the three month period ended 31 March 2016 were €555 million, compared to €538 million for the three month period ended 31 March 2015, an increase of €17 million, or 3.2%. Nominal sales were positively impacted by the strengthening of the U.S. dollar against the euro, which was partly offset by a weakening of emerging market currencies against the euro, mainly the Brazilian real and Argentine peso for the three month period ended 31 March 2016 as compared to the three month period ended 31 March 2015. Comparable sales growth in Americas for the three month period ended 31 March 2016 was 2.8%. The increase in comparable sales was primarily attributable to growth in BG LED, BG Professional and BG Home and partly offset by lower sales of BG Lamps.

Sales in Growth Markets for the three month period ended 31 March 2016 were €350 million, compared to €369 million for the three month period ended 31 March 2015, a decrease of €19 million, or (5.1)%. Nominal sales were negatively impacted by a weakening of emerging market currencies, mainly the Turkish lira, the Indian rupee, the Russian ruble and the Indonesian rupiah, against the euro. Comparable sales growth in Growth Markets for the three month period ended 31 March 2016 was (3.4)%. The decrease in comparable sales was primarily attributable to a decline in BG Lamps, driven by the transition from conventional to LED, and to a decline in BG Professional, primarily driven by macroeconomic weakness in the Middle East and Turkey, which was partially offset by an increase in sales of BG LED and BG Home.

Sales in Greater China for the three month period ended 31 March 2016 were €136 million, compared to €138 million for the three month period ended 31 March 2015, a decrease of €2 million, or (1.4)%. Nominal sales were positively impacted by the strengthening of other currencies, in particular the Chinese renminbi, in relation to the euro for the three month period ended 31 March 2016 as compared to the three month period ended 31 March 2015. Comparable sales growth in Greater China for the three month period ended 31 March 2016 was (2.9)%. The decrease in comparable sales was primarily attributable to decreased sales in BG Lamps driven by the transition from conventional to LED lighting, which were partly offset by growth in BG LED, BG Professional and BG Home.

Sales in Global Businesses for the three month period ended 31 March 2016 were €128 million, compared to €121 million for the three month period ended 31 March 2015, an increase of €7 million, or 5.8%. Comparable sales growth in Global Businesses for the three month period ended 31 March 2016 was 2.4%. The increase in comparable sales was primarily attributable to growth in revenue from licensing of patents, which was primarily driven by the transition from conventional to LED lighting.

### Cost of sales

Cost of sales for the three month period ended 31 March 2016 were €(1,075) million, compared to €(1,106) million for the three month period ended 31 March 2015, a decrease of €31 million, or (2.8)%. Restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales for the three month period ended 31 March 2016 were €(13) million, compared to €(15) million for the three month

period ended 31 March 2015, in each case primarily relating to manufacturing footprint rationalization in BG Lamps. Cost of sales excluding restructuring costs, acquisition-related charges and other incidental charges for the three month period ended 31 March 2016 decreased by €29 million as compared to the three month period ended 31 March 2015 primarily as a result of lower comparable sales.

### ***Gross margin***

Gross margin for the three month period ended 31 March 2016 was €627 million, compared to €621 million for the three month period ended 31 March 2015, an increase of €6 million, or 1.0%. Gross margin as a percentage of sales increased from 36.0% for the three month period ended 31 March 2015 to 36.8% for the three month period ended 31 March 2016. The increase in gross margin was primarily attributable to a decrease in cost of sales, which was partly offset by a decrease in sales. Excluding restructuring costs, acquisition-related charges and other incidental charges, adjusted gross margin for the three month period ended 31 March 2016 was €640 million, compared to €636 million for the three month period ended 31 March 2015, an increase of €4 million, or 0.6%. As a percentage of sales, adjusted gross margin ratio increased from 36.8% for the three month period ended 31 March 2015 to 37.6% for the three month period ended 31 March 2016.

### ***Selling expenses***

Selling expenses for the three month period ended 31 March 2016 were stable at €(430) million, compared to €(430) million for the three month period ended 31 March 2015. Selling expenses as a percentage of sales increased from 24.9% for the three month period ended 31 March 2015 to 25.3% for the three month period ended 31 March 2016. Restructuring costs, acquisition-related charges and other incidental charges attributable to selling expenses for the three month period ended 31 March 2016 were €(6) million, compared to €(15) million for the three month period ended 31 March 2015, in each case primarily relating to productivity improvements in the Group's sales organization. Selling expenses, excluding restructuring costs, acquisition-related charges and other incidental charges for the three month period ended 31 March 2016, increased by €9 million, compared to the three month period ended 31 March 2015, as a result of payment of a brand license fee to Royal Philips for the two months following the Separation, which occurred on 1 February 2016, as well as write-downs related to customer receivables related to long-term overdue balances in Saudi Arabia which were partly offset by the positive impact of productivity improvements.

### ***Research and development expenses***

R&D expenses for the three month period ended 31 March 2016 were €(90) million, compared to €(88) million for the three month period ended 31 March 2015, an increase of €2 million, or 2.3%. R&D expenses as a percentage of sales increased from 5.1% for the three month period ended 31 March 2015 to 5.3% for the three month period ended 31 March 2016. There were no restructuring costs, acquisition-related charges and other incidental charges attributable to R&D expenses for the three month period ended 31 March 2016, compared to a release of €1 million for the three month period ended 31 March 2015.

### ***General and administrative expenses***

General and administrative expenses for the three month period ended 31 March 2016 were €(49) million, compared to €(50) million for the three month period ended 31 March 2015, a decrease of €1 million, or (2.0)%. General and administrative expenses as a percentage of sales were stable at 2.9% for the three month period ended 31 March 2015 and 31 March 2016. Restructuring costs, acquisition-related charges and other incidental charges attributable to general and administrative expenses for the three month period ended 31 March 2016 were €(2) million, compared to nil million for the three month period ended 31 March 2015. The decrease in general and administrative expenses was primarily attributable to improvements in cost productivity.

### ***Impairment of goodwill***

Impairment of goodwill for the three month period ended 31 March 2016 was €(2) million, compared to nil million for the three month period ended 31 March 2015, an increase of €2 million. For further information see Note 7 to the Condensed Combined Interim Financial Statements and Note E.12 to the Combined Financial Statements.

### ***Other business income***

Other business income for the three month period ended 31 March 2016 was €18 million, compared to €2 million for the three month period ended 31 March 2015, an increase of €16 million. For the three month period ended 31 March 2015, other business income included €2 million of other operating income. There were no gains related to the sale of assets for the three month period ended 31 March 2015. For the three month period ended 31 March 2016, other business income included €4 million of gains related to the sale of assets and €14 million of other operating income, mainly from a gain of €12 million resulting from the sale of trade accounts receivable to the other shareholder of GLC, and release of related provisions by the Group.

### **Other business expenses**

Other business expenses for the three month period ended 31 March 2016 was €(3) million, compared to nil for the three month period ended 31 March 2015, an increase of €3 million. For the three month period ended 31 March 2016, other business expenses included €(2) million of losses related to the sale of assets and €(1) million of other operating charges.

### **Income from operations**

Income from operations for the three month period ended 31 March 2016 was €71 million, compared to €55 million for the three month period ended 31 March 2015, an increase of €16 million. Restructuring costs, acquisition-related charges and other incidental charges included in income from operations were €(29) million in the three month period ended 31 March 2015 compared to €(21) million in the three month period ended 31 March 2016. Income from operations, excluding restructuring costs, acquisition-related charges and other incidental charges, increased primarily as a result of higher gross margin, lower general and administrative expenses and increased other business income, which were partially offset by increased selling expenses. The reasons for each of these changes are as described above.

### **Financial income**

Financial income for the three month period ended 31 March 2016 was €4 million, compared to nil million for the three month period ended 31 March 2015. The increase was primarily attributable to higher interest received on cash balances and intercompany receivables.

### **Financial expenses**

Financial expenses for the three month period ended 31 March 2016 were €(21) million, compared to €(2) million for the three month period ended 31 March 2015, an increase of €19 million. The increase was primarily attributable to exchange differences related to intercompany loans of €(10) million, interest related to pensions of €(3) million and impairments related to available held for sale balances of €(3) million. Exchange differences related to intercompany loans primarily related to losses on the Egyptian pound of €(6) million.

### **Income tax expense**

Income tax expense for the three month period ended 31 March 2016 was €(40) million, compared to €(23) million for the three month period ended 31 March 2015, an increase of €17 million. This increase was primarily due to non-recurring tax charges related to the Separation directly attributable to the Group.

### **Net income (loss)**

Net income for the three month period ended 31 March 2016 was €14 million, compared to net income of €30 million for the three month period ended 31 March 2015, a decrease of €16 million. The decrease was primarily attributable to higher income taxes and financial expenses and partly offset by higher income from operations as further described above.

### **EBITA (unaudited)**

EBITA for the three month period ended 31 March 2016 was €100 million, compared to €81 million for the three month period ended 31 March 2015, an increase of €19 million, or 23.5%. Amortization related to acquisition-related intangible assets for the three month period ended 31 March 2016 was €(27) million, compared to €(26) million for the three month period ended 31 March 2015, and relates primarily to amortization of customer relationships, brands and technology capitalized from prior acquisitions (in particular, the acquisition of Genlyte in 2008). The increase in EBITA was primarily attributable to higher gross margin, lower general and administrative expenses and increased other business income, which were partially offset by higher selling expenses, each as further described above.

### **EBITA by Business Group**

The following table presents the Group's EBITA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the three month periods ended 31 March (unaudited)</b>		<b>Nominal Change</b>	
	<b>2016</b>	<b>2015</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps . . . . .	114	106	8
BG LED . . . . .	20	3	17	566.7%
BG Professional . . . . .	1	5	(4)	80.0%
BG Home . . . . .	(14)	(18)	4	(22.2%)
Other . . . . .	(21)	(15)	(6)	40.0%
<b>Total . . . . .</b>	<b>100</b>	<b>81</b>	<b>19</b>	<b>23.5%</b>



### **Adjusted EBITA (unaudited)**

Adjusted EBITA for the three month period ended 31 March 2016 was €121 million, compared to €110 million for the three month period ended 31 March 2015, an increase of €11 million, or 10.0%. Restructuring costs, acquisition-related costs and other incidental charges were €(21) million in the three month period ended 31 March 2016, compared to €(29) million in the three month period ended 31 March 2015, a decrease of €8 million, or (27.6%). The increase in adjusted EBITA was primarily attributable to higher gross margin, lower general and administrative expenses and increased other business income, which were partially offset by higher selling expenses, each as further described above. Adjusted EBITA for the three month period ended 31 March 2015 includes the effects of foreign currency exchange rate fluctuations, including a non-recurring positive impact related to a working capital revaluation, while adjusted EBITA for the three month period ended 31 March 2016 reflects negative impact related to devaluations of currencies against the euro. Despite these impacts of foreign currency exchange rate movements, as a percentage of sales, adjusted EBITA for the three month period ended 31 March 2016 was 7.1%, compared to 6.4% for the three month period ended 31 March 2015, primarily driven by the results of productivity improvements.

### **Adjusted EBITA by Business Group**

The following table presents the Group's adjusted EBITA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the three month periods ended 31 March (unaudited)</b>		<b>Nominal Change</b>	
	<b>2016</b>	<b>2015</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps . . . . .	125	123	2
BG LED . . . . .	20	5	15	300.0%
BG Professional . . . . .	6	12	(6)	(50.0)%
BG Home . . . . .	(12)	(14)	2	(14.3)%
Other . . . . .	(18)	(16)	(2)	12.5%
<b>Total . . . . .</b>	<b>121</b>	<b>110</b>	<b>11</b>	<b>10.0%</b>

### **EBITDA (unaudited)**

EBITDA for the three month period ended 31 March 2016 was €149 million, compared to €128 million for the three month period ended 31 March 2015, an increase of €21 million, or 16.4%. The increase was primarily attributable to higher income from operations for the three month period ended 31 March 2016.

### **EBITDA by Business Group**

The following table presents the Group's EBITDA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the three month periods ended 31 March (unaudited)</b>		<b>Nominal Change</b>	
	<b>2016</b>	<b>2015</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps . . . . .	136	126	10
BG LED . . . . .	24	6	18	300.0%
BG Professional . . . . .	13	17	(4)	(23.5)%
BG Home . . . . .	(12)	(16)	4	(25.0)%
Other . . . . .	(12)	(5)	(7)	140.0%
<b>Total . . . . .</b>	<b>149</b>	<b>128</b>	<b>21</b>	<b>16.4%</b>

### **Adjusted EBITDA (unaudited)**

Adjusted EBITDA for the three month period ended 31 March 2016 was €161 million, compared to €155 million for the three month period ended 31 March 2015, an increase of €6 million, or 3.9%. The increase in adjusted EBITDA was primarily attributable to higher gross margin, lower general and administrative expenses and increased other business income, which were partially offset by higher selling expenses, each as further described above. Adjusted EBITDA ratio increased from 9.0% for the three month period ended 31 March 2015 to 9.5% for the three month period ended 31 March 2016.

## Segment information

### BG Lamps

The following table presents certain financial information of BG Lamps for each of the periods indicated.

<i>In € millions, except percentages</i>	For the three month periods ended 31 March (unaudited)		Nominal Change	
	2016	2015	€ millions	%
	Sales .....	615	727	(112)
<i>Sales including intersegment</i> .....	623	741	(118)	(15.9)%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(14.5)%	—	—	—
Income from operations .....	113	106	7	6.6%
<i>% of sales including intersegment</i> .....	18.1%	14.3%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	114	106	8	7.5%
<i>% of sales including intersegment</i> .....	18.3%	14.3%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	125	123	2	1.6%
<i>% of sales including intersegment</i> .....	20.1%	16.6%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	136	126	10	7.9%
<i>% of sales including intersegment</i> .....	21.8%	17.0%	—	—
Net capital expenditures <sup>(1)</sup> .....	(3)	(7)	4	—

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the three month periods ended 31 March 2016 and 2015.

Sales of BG Lamps for the three month period ended 31 March 2016 were €615 million, compared to €727 million for the three month period ended 31 March 2015, a decrease of €112 million, or (15.4)%. Comparable sales growth for BG Lamps from the three month period ended 31 March 2015 to the three month period ended 31 March 2016 was (14.5)%. The decrease in comparable sales was primarily attributable to the transition from conventional to LED lighting, as well as price erosion in respect of conventional lighting products. Sales declined across all Market Groups.

Sales including intersegment for BG Lamps for the three month period ended 31 March 2016 were €623 million, compared to €741 million for the three month period ended 31 March 2015, a decrease of €118 million, or (15.9)%.

EBITA for BG Lamps for the three month period ended 31 March 2016 was €114 million, or 18.3% of sales including intersegment, compared to €106 million, or 14.3% of sales including intersegment, for the three month period ended 31 March 2015, an increase of €8 million. Amortization related to acquisition-related intangible assets was €(1) million for the three month period ended 31 March 2016, compared to nil million for the three month period ended 31 March 2015. The increase in EBITA for the three month period ended 31 March 2016 was primarily attributable to lower selling expenses and lower general and administrative expenses.

Adjusted EBITA for BG Lamps for the three month period ended 31 March 2016 was €125 million, or 20.1% of sales including intersegment, compared to €123 million, or 16.6% of sales including intersegment, for the three month period ended 31 March 2015, an increase of €2 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(11) million for the three month period ended 31 March 2016, compared to €(17) million for the three month period ended 31 March 2015, and in each case related primarily to manufacturing footprint rationalization. The increase in adjusted EBITA was primarily attributable to lower selling expenses and lower general and administrative expenses. Gross margin excluding restructuring costs, acquisition-related charges and other incidental charges as a percentage of sales including intersegment for BG Lamps improved as a result of savings from manufacturing footprint rationalization and procurement savings.

EBITDA for BG Lamps for the three month period ended 31 March 2016 was €136 million, or 21.8% of sales including intersegment, compared to €126 million, or 17.0% of sales including intersegment, for the three month period ended 31 March 2015. Depreciation, amortization and impairments of non-financial assets amounted to €(23) million for the three month period ended 31 March 2016, compared to €(20) million for the three month period ended 31 March 2015. The increase in depreciation, amortization and impairments of non-financial assets for the three month period ended 31 March 2016 was primarily attributable to higher write-downs following manufacturing footprint rationalization.

Income from operations for BG Lamps for the three month period ended 31 March 2016 was €113 million, compared to €106 million for the three month period ended 31 March 2015, an increase of €7 million, or 6.6%, for the reasons further described above.

Net capital expenditures for BG Lamps for the three month period ended 31 March 2016 was €(3) million, compared to €(7) million for the three month period ended 31 March 2015, a decrease of €4 million. The decrease was primarily attributable to lower investments in machinery and installations due to decreased manufacturing footprint.

#### BG LED

The following table presents certain financial information of BG LED for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the three month periods ended 31 March (unaudited)</b>		<b>Nominal Change</b>	
	<b>2016</b>	<b>2015</b>	<b>€ millions</b>	<b>%</b>
	Sales . . . . .	355	275	80
<i>Sales including intersegment</i> . . . . .	386	295	91	30.8%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> . . . . .	28.8%	—	—	—
Income from operations . . . . .	19	2	17	850.0%
<i>% of sales including intersegment</i> . . . . .	4.9%	0.7%	—	—
EBITA (unaudited) <sup>(1)</sup> . . . . .	20	3	17	566.7%
<i>% of sales including intersegment</i> . . . . .	5.2%	1.0%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> . . . . .	20	5	15	300.0%
<i>% of sales including intersegment</i> . . . . .	5.2%	1.7%	—	—
EBITDA (unaudited) <sup>(1)</sup> . . . . .	24	6	18	300.0%
<i>% of sales including intersegment</i> . . . . .	6.2%	2.0%	—	—
Net capital expenditures <sup>(1)</sup> . . . . .	(3)	(6)	3	—

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the three month periods ended 31 March 2016 and 2015.

Sales of BG LED for the three month period ended 31 March 2016 were €355 million, compared to €275 million for the three month period ended 31 March 2015, an increase of €80 million, or 29.1%. Comparable sales growth for BG LED from the three month period ended 31 March 2015 to the three month period ended 31 March 2016 was 28.8%. The increase in comparable sales was primarily attributable to higher sales volume of LED products due to the market-wide transition from conventional to LED lighting technologies, which was partially offset by lower LED product selling prices due to market pressure to maintain competitive pricing. Sales increased across all Market Groups, with the strongest growth in Growth Markets and Americas.

Sales including intersegment for BG LED for the three month period ended 31 March 2016 were €386 million, compared to €295 million for the three month period ended 31 March 2015, an increase of €91 million, or 30.8%.

EBITA for BG LED for the three month period ended 31 March 2016 was €20 million, or 5.2% of sales including intersegment, compared to €3 million, or 1.0% of sales including intersegment, for the three month period ended 31 March 2015, an increase of €17 million. Amortization related to acquisition-related intangible assets was €(1) million for the three month period ended 31 March 2016, compared to €(1) million for the three month period ended 31 March 2015. The increase in EBITA was primarily attributable to higher gross margins, due to higher sales and lower bill-of-material costs driven by product redesign and procurement savings, as well as reductions in selling expenses and R&D expenses as a percentage of sales for the three month period ended 31 March 2016.

Adjusted EBITA for BG LED for the three month period ended 31 March 2016 was €20 million, or 5.2% of sales including intersegment, compared to €5 million, or 1.7% of sales including intersegment, for the three month period ended 31 March 2015, an increase of €15 million. Restructuring costs, acquisition-related charges and other incidental charges for the three month period ended 31 March 2016 were nil million, compared to €(2) million for the three month period ended 31 March 2015. The increase in adjusted EBITA was primarily attributable to higher gross margins. As a percentage of sales including intersegment, each of selling expenses, R&D expenses and general and administrative expenses decreased from the three month period ended 31 March 2016 compared to 31 March 2015.

EBITDA for BG LED for the three month period ended 31 March 2016 was €24 million, or 6.2% of sales including intersegment, compared to €6 million, or 2.0% of sales including intersegment, for the three month period ended 31 March 2015. Depreciation, amortization and impairments of non-financial assets amounted to €(5) million for the three month period ended 31 March 2016, compared to €(4) million for the three month period ended 31 March 2015.

Income from operations for BG LED for the three month period ended 31 March 2016 was €19 million, compared to €2 million for the three month period ended 31 March 2015, an increase of €17 million, for the reasons further described above.

Net capital expenditures for BG LED for the three month period ended 31 March 2016 was €(3) million, compared to €(6) million for the three month period ended 31 March 2015, and was mainly related to lower capitalization of development assets.

#### *BG Professional*

The following table presents certain financial information of BG Professional for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the three month periods ended 31 March (unaudited)</b>		<b>Nominal Change</b>	
	<b>2016</b>	<b>2015</b>	<b>€ millions</b>	<b>%</b>
	Sales .....	601	610	(9)
<i>Sales including intersegment</i> .....	609	614	(5)	(0.8)%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(2.1)%	—	—	—
Income from operations .....	(25)	(19)	(6)	31.6%
<i>% of sales including intersegment</i> .....	(4.1)%	(3.1)%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	1	5	(4)	(80.0)%
<i>% of sales including intersegment</i> .....	0.2%	0.8%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	6	12	(6)	(50.0)%
<i>% of sales including intersegment</i> .....	1.0%	2.0%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	13	17	(4)	(23.5)%
<i>% of sales including intersegment</i> .....	2.1%	2.8%	—	—
Net capital expenditures <sup>(1)</sup> .....	(8)	(8)	—	—

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the three month periods ended 31 March 2016 and 2015.

Sales of BG Professional for the three month period ended 31 March 2016 were €601 million, compared to €610 million for the three month period ended 31 March 2015, a decrease of €9 million, or (1.5)%. Comparable sales growth for BG Professional from the three month period ended 31 March 2015 to the three month period ended 31 March 2016 was (2.1)%. The decrease in comparable sales was primarily due to macroeconomic weakness in Middle East and Turkey and, to a lesser extent, Latin America, which was partly offset by growth in North America due primarily to the results of business transformation activities. Growth of sales of LED luminaires, systems and services was offset by the decline in conventional luminaires, in each case as a result of the transition from conventional to LED lighting.

Sales including intersegment for BG Professional for the three month period ended 31 March 2016 were €609 million, compared to €614 million for the three month period ended 31 March 2015, a decrease of €5 million, or 0.8%.

EBITA for BG Professional for the three month period ended 31 March 2016 was €1 million, or 0.2% of sales including intersegment, compared to €5 million, or 0.8% of sales including intersegment, for the three month period ended 31 March 2015, a decrease of €4 million. Amortization related to acquisition-related intangible assets for the three month period ended 31 March 2016 was €(26) million, compared to €(24) million for the three month period ended 31 March 2015, in each case relating primarily to amortization of customer relationships, brands and technology capitalized from prior acquisitions (in particular the acquisition of Genlyte in 2008). The decrease in EBITA was primarily attributable to higher selling expenses as a result of both write-downs related to customer receivables and investments in systems and services business, which was partly offset by an increase in other business income related to a gain of €12 million resulting from the sale of trade accounts receivable to the other shareholder of GLC and release of related provisions by the Group.

Adjusted EBITA for BG Professional for the three month period ended 31 March 2016 was €6 million, or 1.0% of sales including intersegment, compared to €12 million, or 2.0% of sales including intersegment, for the three month period ended 31 March 2015, a decrease of €6 million. Restructuring costs, acquisition-related charges and other incidental charges for the three month period ended 31 March 2016 amounted to €(5) million, compared to €(7) million for the three month period ended 31 March 2015, primarily due to lower acquisition-related charges. Acquisition-related charges for the three month period ended 31 March 2016 were €(1) million, compared to €(1) million for the three month period ended 31 March 2015, which was primarily the result of the acquisition of GLC on 2 September 2014. The decrease in adjusted EBITA was primarily

attributable to higher selling expenses and partly offset by an increase in other business income. Gross margin excluding restructuring costs, acquisition-related charges and other incidental charges as a percentage of sales including intersegment for BG Professional improved as a result of LED penetration, productivity improvements and procurement savings.

EBITDA for BG Professional for the three month period ended 31 March 2016 was €13 million, or 2.1% of sales including intersegment, compared to €17 million, or 2.8% of sales including intersegment, for the three month period ended 31 March 2015. Depreciation, amortization and impairments of non-financial assets amounted to €(38) million for the three month period ended 31 March 2016, compared to €(36) million for the three month period ended 31 March 2015. The increase in depreciation, amortization and impairments of non-financial assets for the three month period ended 31 March 2016 was primarily attributable to foreign exchange translation.

Loss from operations for BG Professional for the three month period ended 31 March 2016 was €(25) million, compared to a loss from operations of €(19) million for the three month period ended 31 March 2015, an increase of €6 million, for the reasons further described above.

Net capital expenditures for BG Professional for the three month period ended 31 March 2016 was €(8) million, compared to €(8) million for the three month period ended 31 March 2015.

### BG Home

The following table presents certain financial information of BG Home for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the three month periods ended 31 March (unaudited)</b>		<b>Nominal Change</b>	
	<b>2016</b>	<b>2015</b>	<b>€ millions</b>	<b>%</b>
	Sales .....	124	112	12
<i>Sales including intersegment</i> .....	<i>124</i>	<i>113</i>	<i>11</i>	<i>9.7%</i>
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	10.7%	—	—	—
Income from operations .....	(15)	(19)	4	(21.1)%
<i>% of sales including intersegment</i> .....	<i>(12.1)%</i>	<i>(16.8)%</i>	—	—
EBITA (unaudited) <sup>(1)</sup> .....	(14)	(18)	4	(22.2)%
<i>% of sales including intersegment</i> .....	<i>(11.3)%</i>	<i>(15.9)%</i>	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	(12)	(14)	2	(14.3)%
<i>% of sales including intersegment</i> .....	<i>(9.7)%</i>	<i>(12.4)%</i>	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	(12)	(16)	4	(25.0)%
<i>% of sales including intersegment</i> .....	<i>(9.7)%</i>	<i>(14.2)%</i>	—	—
Net capital expenditures <sup>(1)</sup> .....	(1)	(7)	6	—

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the three month periods ended 31 March 2016 and 2015.

Sales of BG Home for the three month period ended 31 March 2016 were €124 million, compared to €112 million for the three month period ended 31 March 2015, an increase of €12 million, or 10.7%. Comparable sales growth for BG Home from the three month period ended 31 March 2015 to the three month period ended 31 March 2016 was 10.7%. The increase in comparable sales was primarily attributable to double-digit growth in home systems for the three month period ended 31 March 2016.

Sales including intersegment for BG Home for the three month period ended 31 March 2016 were €124 million, compared to €113 million for the three month period ended 31 March 2015, an increase of €11 million, or 9.7%.

EBITA for BG Home for the three month period ended 31 March 2016 was €(14) million, or (11.3)% of sales including intersegment, compared to €(18) million, or (15.9)% of sales including intersegment, for the three month period ended 31 March 2015, an increase of €4 million. Amortization related to acquisition-related intangible assets was €(1) million for the three month period ended 31 March 2016, compared to €(1) million for the three month period ended 31 March 2015. The improvement in EBITA was primarily attributable to higher gross margin as a result of an increase in sales and a reduction in restructuring costs, acquisition-related charges and other incidental charges.

Adjusted EBITA for BG Home for the three month period ended 31 March 2016 was €(12) million, or (9.7)% of sales including intersegment, compared to €(14) million, or (12.4)% of sales including intersegment, for the three month period ended 31 March 2015, an increase of €2 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(2) million for the three month period ended 31 March 2016, compared to €(4) million for the three month period ended 31 March 2015, and in each



case related primarily to restructuring costs resulting from the business transformation program in the consumer luminaires business in Europe. The improvement in adjusted EBITA was primarily attributable to higher gross margin as a result of an increase in sales.

EBITDA for BG Home for the three month period ended 31 March 2016 was €(12) million, or (9.7)% of sales including intersegment, compared to €(16) million, or (14.2)% of sales including intersegment, for the three month period ended 31 March 2015. Depreciation, amortization and impairments of non-financial assets amounted to €(3) million for the three month period ended 31 March 2016, compared to €(3) million for the three month period ended 31 March 2015.

Income from operations for BG Home for the three month period ended 31 March 2016 was €(15) million, compared to €(19) million for the three month period ended 31 March 2015, an improvement of €4 million.

Net capital expenditures for BG Home for the three month period ended 31 March 2016 was €(1) million, compared to €(7) million for the three month period ended 31 March 2015, a decrease of €6 million. The increased level of net capital expenditures for the three month period ended 31 March 2015 was primarily due to investments in machinery and installations following the move of certain manufacturing activities.

#### *Other*

Sales attributed to Other for the three month period ended 31 March 2016 were €7 million, compared to €3 million for the three month period ended 31 March 2015. Income from operations attributed to Other for the three month period ended 31 March 2016 was €(21) million, compared to €(15) million for the three month period ended 31 March 2015, a decrease of €6 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(3) million for the three month period ended 31 March 2016 compared to a net release of €1 million for the three month period ended 31 March 2015, primarily related to reevaluation of previously provisioned restructuring costs. Restructuring costs, acquisition-related charges and other incidental expenses included costs incurred in connection with the Separation of €(2) million for the three month period ended 31 March 2016. Excluding restructuring costs, acquisition-related charges and other incidental charges, the decrease in income from operations was primarily attributable to higher investments related to R&D.

### **Comparison of Results of Operations for the Years Ended 31 December 2015 and 31 December 2014**

The Group's combined results of operations for the year ended 31 December 2015 compared to the year ended 31 December 2014 are discussed below. The discussion includes the results of the Business Groups and Market Groups.

#### *Sales*

Sales for the year ended 31 December 2015 were €7,465 million, compared to €6,981 million for the year ended 31 December 2014, an increase of €484 million, or 6.9%. Nominal sales in all Business Groups were positively impacted by favorable foreign exchange movements, with the Group's sales experiencing favorable foreign currency effects of €599 million for the year ended 31 December 2015, or 8.2%, mainly arising from the strengthening of the U.S. dollar and the Chinese renminbi against the euro. The Group's acquisition of a 51% interest in GLC as of 2 September 2014 also contributed additional sales of €186 million for the comparative period from 1 January 2015 to 1 September 2015. Comparable sales growth from the year ended 31 December 2014 to the year ended 31 December 2015 was (3.5)%. The decrease in comparable sales was primarily attributable to lower sales of conventional lighting products by BG Lamps, which were offset in part by increased sales of LED lighting products by BG LED, as a result of the transition from conventional to LED lighting.

#### *Sales by Business Group*

The following table presents the Group's sales by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Comparable Sales Growth <sup>(1)</sup></b>	<b>Effects of Currency Movements</b>	<b>Effects of Changes in Consolidation</b>	<b>Nominal Sales Growth</b>
	<b>2015</b>	<b>2014</b>				
BG Lamps . . . . .	2,850	3,119	(15.9)%	7.4%	(0.1)%	(8.6)%
BG LED . . . . .	1,334	958	27.0%	11.9%	0.3%	39.2%
BG Professional . . . . .	2,757	2,420	(0.7)%	8.2%	6.4%	13.9%
BG Home . . . . .	515	482	(0.4)%	7.2%	—	6.8%
Other . . . . .	9	2	350.0%	—	—	350.0%
<b>Total . . . . .</b>	<b>7,465</b>	<b>6,981</b>	<b>(3.5)%</b>	<b>8.2%</b>	<b>2.2%</b>	<b>6.9%</b>

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See "—Non-IFRS financial measures" for more information on non-IFRS financial measures and reconciliation of comparable sales growth by Business Group for the years ended 31 December 2015 and 2014.

## Sales by Market Group

The following table presents the Group's sales by Market Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Comparable Sales Growth <sup>(1)</sup></b>	<b>Effects of Currency Movements</b>	<b>Effects of Changes in Consolidation</b>	<b>Nominal Sales Growth</b>
	<b>2015</b>	<b>2014</b>				
Europe . . . . .	2,290	2,311	(2.2)%	1.3%	—	(0.9)%
Americas . . . . .	2,380	2,156	(2.8)%	14.3%	(1.1)%	10.4%
Growth Markets . . . . .	1,717	1,450	(2.1)%	7.8%	12.7%	18.4%
Greater China . . . . .	582	624	(19.6)%	12.9%	—	(6.7)%
Global Businesses . . . . .	496	440	5.6%	8.8%	(1.7)%	12.7%
<b>Total . . . . .</b>	<b>7,465</b>	<b>6,981</b>	<b>(3.5)%</b>	<b>8.2%</b>	<b>2.2%</b>	<b>6.9%</b>

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of comparable sales growth by Market Group for the years ended 31 December 2015 and 2014.

Sales in Europe for the year ended 31 December 2015 were €2,290 million, compared to €2,311 million for the year ended 31 December 2014, a decrease of €21 million, or (0.9)%. Nominal sales were positively impacted by favorable currency effects mainly driven by the appreciation of the British pound against the euro. Comparable sales growth in Europe for the year ended 31 December 2015 was (2.2)%. The decrease in comparable sales was primarily attributable to lower sales of BG Lamps, which were partly offset by an increase in sales of BG Professional, driven by increased sales of LED-based luminaires as well as systems and services, and an increase in sales of BG LED, in each case due to the transition from conventional to LED lighting.

Sales in Americas for the year ended 31 December 2015 were €2,380 million, compared to €2,156 million for the year ended 31 December 2014, an increase of €224 million, or 10.4%. Nominal sales were positively impacted by the strengthening of other currencies, in particular the U.S. dollar, in relation to the euro for the year ended 31 December 2015 as compared to the year ended 31 December 2014. Comparable sales growth in Americas for the year ended 31 December 2015 was (2.8)%. The decrease in comparable sales was primarily attributable to decreased sales of BG Lamps driven by the transition from conventional to LED lighting and decreased sales of BG Professional as a result of the business transformation program in North America, which were partly offset by growth in BG LED and BG Home.

Sales in Growth Markets for the year ended 31 December 2015 were €1,717 million, compared to €1,450 million for the year ended 31 December 2014, an increase of €267 million, or 18.4%. Nominal sales were positively impacted by a strengthening of emerging market currencies, mainly the Indian rupee, the Turkish lira and the Indonesian rupiah, against the euro. Sales were also positively impacted by change in consolidation as a result of the Group's acquisition of a 51% interest in GLC as of 2 September 2014, which contributed sales of €186 million for the comparative period from 1 January 2015 to 1 September 2015. Comparable sales growth in Growth Markets for the year ended 31 December 2015 was (2.1)%. The decrease in comparable sales was primarily attributable to a decline in BG Lamps, which was partially offset by an increase in sales of BG Professional, driven by increased sales of LED-based luminaires as well as systems and services, and an increase in sales of BG LED and BG Home, in each case due to the transition from conventional to LED lighting.

Sales in Greater China for the year ended 31 December 2015 were €582 million, compared to €624 million for the year ended 31 December 2014, a decrease of €42 million, or (6.7)%. Nominal sales were positively impacted by the strengthening of other currencies, in particular the Chinese renminbi, in relation to the euro for the year ended 31 December 2015 as compared to the year ended 31 December 2014. Comparable sales growth in Greater China for the year ended 31 December 2015 was (19.6)%. The decrease in comparable sales was primarily attributable to decreased sales in BG Lamps driven by the transition from conventional to LED lighting and decreased sales in BG Professional and BG Home, which were partly offset by growth in BG LED.

Sales in Global Businesses for the year ended 31 December 2015 were €496 million, compared to €440 million for the year ended 31 December 2014, an increase of €56 million, or 12.7%. Comparable sales growth in Global Businesses for the year ended 31 December 2015 was 5.6%. The increase in comparable sales was primarily attributable to growth in revenue from licensing of patents, which was primarily driven by the transition from conventional to LED lighting.

## Cost of sales

Cost of sales for the year ended 31 December 2015 were €(4,810) million, compared to €(4,671) million for the year ended 31 December 2014, an increase of €139 million, or 3.0%. Restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales for the year ended 31 December 2015 were €(76) million, compared to €(266) million for the year ended 31 December 2014, in each case primarily relating

to manufacturing footprint rationalization in BG Lamps and BG Professional and consolidation of the European warehouse footprint in BG Home. This included other incidental charges attributable to cost of sales for the year ended 31 December 2014 of €(63) million, primarily relating to a €(68) million write-down of the assets relating to the organic light-emitting diode business of the Group (“**OLED**”). Other incidental charges included intercompany losses of €(14) million across the Business Groups recognized in cost of sales due to foreign exchange rate fluctuations in Argentina for the year ended 31 December 2015. Cost of sales excluding restructuring costs, acquisition-related charges and other incidental charges for the year ended 31 December 2015 increased by €329 million as compared to the year ended 31 December 2014 primarily as a result of adverse foreign exchange impacts and for the full year impact of the Group’s acquisition of a 51% interest in GLC as of 2 September 2014.

### ***Gross margin***

Gross margin for the year ended 31 December 2015 was €2,655 million, compared to €2,310 million for the year ended 31 December 2014, an increase of €345 million, or 14.9%. Gross margin as a percentage of sales increased from 33.1% for the year ended 31 December 2014 to 35.6% for the year ended 31 December 2015. The increase in gross margin was primarily attributable to the increase in sales and partly offset by an increase in cost of sales. Excluding restructuring costs, acquisition-related charges and other incidental charges, adjusted gross margin for the year ended 31 December 2015 was €2,731 million, compared to €2,576 million for the year ended 31 December 2014, an increase of €155 million, or 6.0%. As a percentage of sales, adjusted gross margin ratio remained broadly stable, decreasing slightly from 36.9% for the year ended 31 December 2014 to 36.6% for the year ended 31 December 2015.

### ***Selling expenses***

Selling expenses for the year ended 31 December 2015 were €(1,751) million, compared to €(1,657) million for the year ended 31 December 2014, an increase of €94 million, or 5.7%. Selling expenses as a percentage of sales decreased from 23.7% for the year ended 31 December 2014 to 23.5% for the year ended 31 December 2015. Restructuring costs, acquisition-related charges and other incidental charges attributable to selling expenses for the year ended 31 December 2015 were €(32) million, compared to €(37) million for the year ended 31 December 2014, in each case primarily relating to productivity improvements in the Group’s sales organization. Selling expenses, excluding restructuring costs, acquisition-related charges and other incidental charges for the year ended 31 December 2015 increased by €99 million as compared to the year ended 31 December 2014, primarily as a result of adverse foreign exchange impacts and for the full year impact of the Group’s acquisition of a 51% interest in GLC as of 2 September 2014, which were partially offset by cost reductions attributable to the business transformation programs relating to BG Professional in North America and consolidation of the European warehouse footprint for BG Home.

### ***Research and development expenses***

R&D expenses for the year ended 31 December 2015 were €(366) million, compared to €(395) million for the year ended 31 December 2014, a decrease of €29 million, or (7.3%). R&D expenses as a percentage of sales decreased from 5.7% for the year ended 31 December 2014 to 4.9% for the year ended 31 December 2015. Restructuring costs, acquisition-related charges and other incidental charges attributable to R&D expenses for the year ended 31 December 2015 were €(1) million, compared to €(13) million for the year ended 31 December 2014. The decrease in R&D expenses was primarily attributable to the decrease in restructuring costs, acquisition-related charges and other incidental charges.

### ***General and administrative expenses***

General and administrative expenses for the year ended 31 December 2015 were €(233) million, compared to €(223) million for the year ended 31 December 2014, an increase of €10 million, or 4.5%. General and administrative expenses as a percentage of sales decreased from 3.2% for the year ended 31 December 2014 to 3.1% for the year ended 31 December 2015. Restructuring costs, acquisition-related charges and other incidental charges attributable to general and administrative expenses for the year ended 31 December 2015 were nil million, compared to €(11) million for the year ended 31 December 2014. The increase in general and administrative expenses was primarily attributable to an increase in costs related to the headquarter functions, including additional costs related to information security.

### ***Impairment of goodwill***

Impairment of goodwill for the year ended 31 December 2015 amounted to nil million, compared to €(2) million for the year ended 31 December 2014, an improvement of €2 million. For further information see Note E.12 to the Combined Financial Statements.

### ***Other business income***

Other business income for the year ended 31 December 2015 was €48 million, compared to €13 million for the year ended 31 December 2014, an increase of €35 million, or 269.2%. For the year ended 31 December 2014, other business income included €5 million of gains related to the sale of assets and €8 million of other operating income, mainly in BG Professional. For the year ended 31 December 2015, other business income included €38 million in gains related to the sale of assets and €10 million of other operating income.

### ***Other business expenses***

Other business expenses for the year ended 31 December 2015 was €(22) million, compared to €(5) million for the year ended 31 December 2014, an increase of €17 million, or 340.0%. For the year ended 31 December 2014, other business expenses included €(1) million of losses related to the sale of assets and €(4) million of other operating charges. For the year ended 31 December 2015, other business expenses included €(11) million of losses related to the sale of assets and €(11) million of other operating charges.

### ***Income from operations***

Income from operations for the year ended 31 December 2015 was €331 million, compared to €41 million for the year ended 31 December 2014, an increase of €290 million. The increase was primarily attributable to a decrease of restructuring costs, acquisition-related charges and other incidental charges from €(327) million in the year ended 31 December 2014 to €(109) million in the year ended 31 December 2015. Other incidental charges includes pension past service cost gains, which were lower for the year ended 31 December 2015 as compared to the year ended 31 December 2014, in which pension past service cost gains across the Group of €22 million were recognized. Pension past service cost gains relate to lower defined-benefit obligations of Royal Philips in the Netherlands as a result of mandatory plan changes for which gains were allocated to the Group in respect of its relevant employees in the Netherlands. Pension past service cost gains are recognized in cost of sales, selling expenses, R&D expenses or general and administrative expenses depending on the nature of the corresponding employee function. Income from operations, excluding restructuring costs, acquisition-related charges and other incidental charges, increased primarily as a result of increased gross margin and reduced R&D expenses, which were partially offset by increased selling expenses and general and administrative expenses. The reasons for each of these changes are as described above.

### ***Financial income***

Financial income for the year ended 31 December 2015 was unchanged from the year ended 31 December 2014 at €3 million and relates to interest on cash balances.

### ***Financial expenses***

Financial expenses for the year ended 31 December 2015 were €(11) million, compared to €(9) million for the year ended 31 December 2014, an increase of €2 million, or 22.2%. The increase was primarily attributable to a €(4) million impairment loss related to financial assets, partly offset by lower interest expense on tax balances.

### ***Income tax expense***

Income tax expense for the year ended 31 December 2015 was €(83) million, compared to €(66) million for the year ended 31 December 2014, an increase of €17 million, or 25.8%. The increase was primarily attributable to an increase in taxable earnings, which was partly offset by a decrease in expenses related to deferred taxes.

### ***Net income (loss)***

Net income for the year ended 31 December 2015 was €240 million, compared to net income of €(29) million for the year ended 31 December 2014, an increase of €269 million. The increase was primarily attributable to higher income from operations and partly offset by higher income taxes, as further described above.

### ***EBITA (unaudited)***

EBITA for the year ended 31 December 2015 was €438 million, compared to €149 million for the year ended 31 December 2014, an increase of €289 million. Amortization related to acquisition-related intangible assets for the year ended 31 December 2015 was €(107) million, compared to €(108) million for the year ended 31 December 2014, and relates primarily to amortization of customer relationships, brands and technology capitalized from prior acquisitions (in particular, the acquisition of Genlyte in 2008). The increase in EBITA was primarily attributable to higher gross margin and lower R&D expenses, which were partially offset by increased selling expenses and general and administrative expenses, each as further described above.

### EBITA by Business Group

The following table presents the Group's EBITA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2015</b>	<b>2014</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps .....	405	358	47
BG LED .....	70	(59)	129	(218.6)%
BG Professional .....	114	45	69	153.3%
BG Home .....	(72)	(68)	(4)	5.9%
Other .....	(79)	(127)	48	(37.8)%
<b>Total .....</b>	<b>438</b>	<b>149</b>	<b>289</b>	<b>194.0%</b>

### Adjusted EBITA (unaudited)

Adjusted EBITA for the year ended 31 December 2015 was €547 million, compared to €476 million for the year ended 31 December 2014, an increase of €71 million, or 14.9%. Restructuring costs, acquisition-related costs and other incidental charges were €(109) million in the year ended 31 December 2015, compared to €(327) million in the year ended 31 December 2014, a decrease of €218 million, or (66.7%). Restructuring costs associated with the manufacturing footprint rationalization in BG Lamps and BG Professional for the year ended 31 December 2015 were significantly lower than restructuring costs related to manufacturing footprint rationalization for the year ended 31 December 2014. Other incidental charges for the year ended 31 December 2015 included intercompany losses of €(14) million across the Business Groups due to foreign exchange rate fluctuations in Argentina for the year ended 31 December 2015, while other incidental charges for the year ended 31 December 2014 included a write-down in relation to OLED of €(68) million and pension past service cost gains across the Group of €22 million. The increase in adjusted EBITA was primarily attributable to increased gross margin and reduced R&D expenses, which were partially offset by increased selling expenses and general and administrative expenses, as further described above. As a percentage of sales, adjusted EBITA for the year ended 31 December 2015 was 7.3%, compared to 6.8% for the year ended 31 December 2014.

### Adjusted EBITA by Business Group

The following table presents the Group's adjusted EBITA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2015</b>	<b>2014</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps .....	463	506	(43)
BG LED .....	74	14	60	428.6%
BG Professional .....	150	102	48	47.1%
BG Home .....	(57)	(46)	(11)	23.9%
Other .....	(83)	(100)	17	(17.0)%
<b>Total .....</b>	<b>547</b>	<b>476</b>	<b>71</b>	<b>14.9%</b>

### EBITDA (unaudited)

EBITDA for the year ended 31 December 2015 was €646 million, compared to €422 million for the year ended 31 December 2014, an increase of €224 million, or 53.1%. The increase was primarily attributable to higher income from operations for the year ended 31 December 2015.

### EBITDA by Business Group

The following table presents the Group's EBITDA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2015</b>	<b>2014</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps .....	492	474	18
BG LED .....	86	11	75	681.8%
BG Professional .....	169	93	76	81.7%
BG Home .....	(59)	(60)	1	(1.7)%
Other .....	(42)	(96)	54	(56.3)%
<b>Total .....</b>	<b>646</b>	<b>422</b>	<b>224</b>	<b>53.1%</b>



### **Adjusted EBITDA (unaudited)**

Adjusted EBITDA for the year ended 31 December 2015 was €739 million, compared to €665 million for the year ended 31 December 2014, an increase of €74 million, or 11.1%. The increase in adjusted EBITDA was primarily attributable to increased gross margin and reduced R&D expenses, which were partially offset by increased selling expenses and general and administrative expenses, as further described above. The adjusted EBITDA ratio increased from 9.5% for the year ended 31 December 2014 to 9.9% for the year ended 31 December 2015.

### **Segment information**

#### **BG Lamps**

The following table presents certain financial information of BG Lamps for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2015</b>	<b>2014</b>	<b>€ millions</b>	<b>%</b>
Sales .....	2,850	3,119	(269)	(8.6)%
<i>Sales including intersegment</i> .....	2,899	3,181	(282)	(8.9)%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(15.9)%	(9.5)%	—	—
Income from operations .....	403	356	47	13.2%
<i>% of sales including intersegment</i> .....	13.9%	11.2%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	405	358	47	13.1%
<i>% of sales including intersegment</i> .....	14.0%	11.3%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	463	506	(43)	(8.5)%
<i>% of sales including intersegment</i> .....	16.0%	15.9%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	492	474	18	3.8%
<i>% of sales including intersegment</i> .....	17.0%	14.9%	—	—
Net capital expenditures <sup>(1)</sup> .....	(19)	(33)	14	(42.4)%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2015 and 2014.

Sales of BG Lamps for the year ended 31 December 2015 were €2,850 million, compared to €3,119 million for the year ended 31 December 2014, a decrease of €269 million, or (8.6)%. Comparable sales growth for BG Lamps from the year ended 31 December 2014 to the year ended 31 December 2015 was (15.9)%. The decrease in comparable sales was primarily attributable to the transition from conventional to LED lighting, as well as price erosion in respect of conventional lighting products. Sales declined across all Market Groups.

Sales including intersegment for BG Lamps for the year ended 31 December 2015 were €2,899 million, compared to €3,181 million for the year ended 31 December 2014, a decrease of €282 million, or (8.9)%.

EBITA for BG Lamps for the year ended 31 December 2015 was €405 million, or 14.0% of sales including intersegment, compared to €358 million, or 11.3% of sales including intersegment, for the year ended 31 December 2014, an increase of €47 million. Amortization related to acquisition-related intangible assets was €(2) million for the year ended 31 December 2015, compared to €(2) million for the year ended 31 December 2014. The increase in EBITA for the year ended 31 December 2015 was primarily attributable to lower restructuring costs associated with manufacturing footprint rationalization.

Adjusted EBITA for BG Lamps for the year ended 31 December 2015 was €463 million, or 16.0% of sales including intersegment, compared to €506 million, or 15.9% of sales including intersegment, for the year ended 31 December 2014, a decrease of €43 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(58) million for the year ended 31 December 2015, compared to €(148) million for the year ended 31 December 2014, and in each case related primarily to manufacturing footprint rationalization. The decrease in adjusted EBITA was primarily attributable to the reduction in sales as a result of the transition from conventional to LED lighting, which was partially offset by lower selling expenses, lower R&D expenses and lower general and administrative expenses. The adjusted EBITA ratio for BG Lamps remained broadly stable, as lower sales including intersegment were offset by the positive impacts of manufacturing footprint rationalization and procurement savings.

EBITDA for BG Lamps for the year ended 31 December 2015 was €492 million, or 17.0% of sales including intersegment, compared to €474 million, or 14.9% of sales including intersegment, for the year ended 31 December 2014. Depreciation, amortization and impairments of non-financial assets amounted to €(89) million for the year ended 31 December 2015, compared to €(118) million for the year ended 31 December 2014. The decrease in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2015 was primarily attributable to decreased fixed assets following manufacturing footprint rationalization.

Income from operations for BG Lamps for the year ended 31 December 2015 was €403 million, compared to €356 million for the year ended 31 December 2014, an increase of €47 million, or 13.2%, for the reasons further described above.

Net capital expenditures for BG Lamps for the year ended 31 December 2015 was €(19) million, compared to €(33) million for the year ended 31 December 2014, a decrease of €14 million. The decrease was primarily attributable to higher proceeds received on the sale of fixed assets.

#### BG LED

The following table presents certain financial information of BG LED for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended</b>		<b>Nominal Change</b>	
	<b>31 December</b>		<b>€ millions</b>	<b>%</b>
	<b>2015</b>	<b>2014</b>		
Sales .....	1,334	958	376	39.2%
<i>Sales including intersegment</i> .....	1,427	1,025	402	39.2%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	27.0%	26.3%	—	—
Income from operations .....	66	(62)	128	(206.5)%
<i>% of sales including intersegment</i> .....	4.6%	(6.0)%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	70	(59)	129	(218.6)%
<i>% of sales including intersegment</i> .....	4.9%	(5.8)%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	74	14	60	428.6%
<i>% of sales including intersegment</i> .....	5.2%	1.4%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	86	11	75	681.8%
<i>% of sales including intersegment</i> .....	6.0%	1.1%	—	—
Net capital expenditures <sup>(1)</sup> .....	(25)	(27)	2	(7.4)%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2015 and 2014.

Sales of BG LED for the year ended 31 December 2015 were €1,334 million, compared to €958 million for the year ended 31 December 2014, an increase of €376 million, or 39.2%. Comparable sales growth for BG LED from the year ended 31 December 2014 to the year ended 31 December 2015 was 27.0%. The increase in comparable sales was primarily attributable to higher sales volume of LED products due to the market-wide transition from conventional to LED lighting technologies, which was partially offset by lower LED product selling prices due to market pressure to maintain competitive pricing. Sales increased across all Market Groups, with the strongest growth in Growth Markets and Americas.

Sales including intersegment for BG LED for the year ended 31 December 2015 were €1,427 million, compared to €1,025 million for the year ended 31 December 2014, an increase of €402 million, or 39.2%.

EBITA for BG LED for the year ended 31 December 2015 was €70 million, or 4.9% of sales including intersegment, compared to €(59) million, or (5.8)% of sales including intersegment, for the year ended 31 December 2014, an increase of €129 million. Amortization related to acquisition-related intangible assets was €(4) million for the year ended 31 December 2015, compared to €(3) million for the year ended 31 December 2014. The increase in EBITA was primarily attributable to higher gross margins due to higher bill-of-materials savings and lower levels of write-downs of fixed assets for the year ended 31 December 2015.

Adjusted EBITA for BG LED for the year ended 31 December 2015 was €74 million, or 5.2% of sales including intersegment, compared to €14 million, or 1.4% of sales including intersegment, for the year ended 31 December 2014, an increase of €60 million. Restructuring costs, acquisition-related charges and other incidental charges for the year ended 31 December 2015 were €(4) million, compared to €(73) million for the year ended 31 December 2014. Restructuring costs amounted to €(2) million for the year ended 31 December 2015, compared to €(5) million for the year ended 31 December 2014, and related primarily to commercial activities. The year ended 31 December 2014 included other incidental charges of €(68) million relating to a write-down of the assets relating to OLED. The increase in adjusted EBITA was primarily attributable to higher gross margins, due to higher sales and lower bill-of-material costs driven by product redesign and procurement savings. The effect of price erosion was largely offset by lower bill-of-material costs.

EBITDA for BG LED for the year ended 31 December 2015 was €86 million, or 6.0% of sales including intersegment, compared to €11 million, or 1.1% of sales including intersegment, for the year ended 31 December 2014. Depreciation, amortization and impairments of non-financial assets amounted to €(20) million for the year ended 31 December 2015, compared to €(73) million for the year ended 31 December 2014. The decrease in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2015 compared to the year ended 31 December 2014 was primarily attributable to a €(49) million write-down of fixed assets relating to OLED in the year ended 31 December 2014.

Income from operations for BG LED for the year ended 31 December 2015 was €66 million, compared to €(62) million for the year ended 31 December 2014, an increase of €128 million, for the reasons further described above.

Net capital expenditures for BG LED for the year ended 31 December 2015 was €(25) million, compared to €(27) million for the year ended 31 December 2014, a decrease of €2 million, mainly due to reduced investments in OLED, partly offset by additional growth investments in LED electronics.

#### BG Professional

The following table presents certain financial information of BG Professional for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2015</b>	<b>2014</b>	<b>€ millions</b>	<b>%</b>
Sales .....	2,757	2,420	337	13.9%
<i>Sales including intersegment</i> .....	2,775	2,433	342	14.1%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(0.7)%	3.3%	—	—
Income from operations .....	14	(56)	70	(125.0)%
<i>% of sales including intersegment</i> .....	0.5%	(2.3)%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	114	45	69	153.3%
<i>% of sales including intersegment</i> .....	4.1%	1.8%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	150	102	48	47.1%
<i>% of sales including intersegment</i> .....	5.4%	4.2%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	169	93	76	81.7%
<i>% of sales including intersegment</i> .....	6.1%	3.8%	—	—
Net capital expenditures <sup>(1)</sup> .....	(56)	(26)	(30)	115.4%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2015 and 2014.

Sales of BG Professional for the year ended 31 December 2015 were €2,757 million, compared to €2,420 million for the year ended 31 December 2014, an increase of €337 million, or 13.9%. The Group’s acquisition of a 51% interest in GLC as of 2 September 2014 also contributed sales of €186 million for the comparative period from 1 January 2015 to 1 September 2015. Comparable sales growth for BG Professional from the year ended 31 December 2014 to the year ended 31 December 2015 was (0.7)%. The decrease in comparable sales was primarily attributable to weaker sales in North America and Greater China due to the impacts of business transformation programs, which was partially offset by higher sales in Europe and Growth Markets. Growth of sales of LED luminaires, systems and services in all Market Groups was offset by the decline in conventional luminaires as a result of the transition from conventional to LED lighting.

Sales including intersegment for BG Professional for the year ended 31 December 2015 were €2,775 million, compared to €2,433 million for the year ended 31 December 2014, an increase of €342 million, or 14.1%.

EBITA for BG Professional for the year ended 31 December 2015 was €114 million, or 4.1% of sales including intersegment, compared to €45 million, or 1.8% of sales including intersegment, for the year ended 31 December 2014, an increase of €69 million. Amortization related to acquisition-related intangible assets for the year ended 31 December 2015 was €(100) million, compared to €(101) million for the year ended 31 December 2014, in each case relating primarily to amortization of customer relationships, brands and technology capitalized from prior acquisitions (in particular the acquisition of Genlyte in 2008). The increase in EBITA was primarily attributable to lower restructuring costs related to manufacturing footprint rationalization and improvement in gross margin.

Adjusted EBITA for BG Professional for the year ended 31 December 2015 was €150 million, or 5.4% of sales including intersegment, compared to €102 million, or 4.2% of sales including intersegment, for the year ended 31 December 2014, an increase of €48 million. Restructuring costs, acquisition-related charges and other incidental charges for the year ended 31 December 2015 amounted to €(36) million, compared to €(57) million for the year ended 31 December 2014, primarily due to lower restructuring costs related to manufacturing footprint rationalization and lower acquisition related charges. Acquisition-related charges for the year ended 31 December 2015 were €(5) million, compared to €(20) million for the year ended 31 December 2014, which was primarily the result of the acquisition of GLC on 2 September 2014. The increase in adjusted EBITA was primarily attributable to improvement in gross margin following an increase in LED penetration, higher procurement savings, and an improvement in factory productivity as a result of manufacturing footprint rationalization.

EBITDA for BG Professional for the year ended 31 December 2015 was €169 million, or 6.1% of sales including intersegment, compared to €93 million, or 3.8% of sales including intersegment, for the year ended 31 December 2014. Depreciation, amortization and impairments of non-financial assets amounted to €(155) million for the year ended 31 December 2015, compared to €(149) million for the year ended 31 December 2014. The increase in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2015 was primarily attributable to an increase in fixed assets resulting from the acquisition of GLC and foreign exchange translation.

Income from operations for BG Professional for the year ended 31 December 2015 was €14 million, compared to a loss from operations of €(56) million for the year ended 31 December 2014, an increase of €70 million, for the reasons further described above.

Net capital expenditures for BG Professional for the year ended 31 December 2015 was €(56) million, compared to €(26) million for the year ended 31 December 2014, an increase of €30 million. The increase was primarily attributable to higher growth investments and lower proceeds received on the sales of fixed assets.

#### BG Home

The following table presents certain financial information of BG Home for each of the periods indicated.

In € millions, except percentages	For the year ended 31 December		Nominal Change	
	2015	2014	€ millions	%
	Sales .....	515	482	33
<i>Sales including intersegment</i> .....	519	485	34	7.0%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(0.4)%	(0.4)%	—	—
Income from operations .....	(73)	(70)	(3)	4.3%
<i>% of sales including intersegment</i> .....	(14.1)%	(14.4)%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	(72)	(68)	(4)	5.9%
<i>% of sales including intersegment</i> .....	(13.9)%	(14.0)%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	(57)	(46)	(11)	23.9%
<i>% of sales including intersegment</i> .....	(11.0)%	(9.5)%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	(59)	(60)	1	(1.7)%
<i>% of sales including intersegment</i> .....	(11.4)%	(12.4)%	—	—
Net capital expenditures <sup>(1)</sup> .....	(3)	(9)	6	(66.7)%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2015 and 2014.

Sales of BG Home for the year ended 31 December 2015 were €515 million, compared to €482 million for the year ended 31 December 2014, an increase of €33 million, or 6.8%. Comparable sales growth for BG Home from the year ended 31 December 2014 to the year ended 31 December 2015 was (0.4)%. The decrease in comparable sales was primarily attributable to lower sales in Europe, which were primarily due to the business transformation program in the consumer luminaires portfolio in Europe, and to lower sales in Greater China, which were partially offset by an increase in comparable sales in Americas and Growth Markets. Sales of home systems continued to grow in the double-digits, with particularly strong growth in Europe for the year ended 31 December 2015.

Sales including intersegment for BG Home for the year ended 31 December 2015 were €519 million, compared to €485 million for the year ended 31 December 2014, an increase of €34 million, or 7.0%.

EBITA for BG Home for the year ended 31 December 2015 was €(72) million, or (13.9)% of sales including intersegment, compared to €(68) million, or (14.0)% of sales including intersegment, for the year ended 31 December 2014, a decrease of €4 million. Amortization related to acquisition-related intangible assets was €(1) million for the year ended 31 December 2015, compared to €(2) million for the year ended 31 December 2014. The decrease in EBITA was primarily attributable to higher investments in R&D in home systems.

Adjusted EBITA for BG Home for the year ended 31 December 2015 was €(57) million, or (11.0)% of sales including intersegment, compared to €(46) million, or (9.5)% of sales including intersegment, for the year ended 31 December 2014, a decrease of €11 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(15) million for the year ended 31 December 2015, compared to €(22) million for the year ended 31 December 2014, and in each case related primarily to restructuring costs resulting from the business transformation program in the consumer luminaires business in Europe. The decrease in adjusted EBITA was primarily attributable to higher investments in R&D, of which the majority related to home systems.



EBITDA for BG Home for the year ended 31 December 2015 was €(59) million, or (11.4)% of sales including intersegment, compared to €(60) million, or (12.4)% of sales including intersegment, for the year ended 31 December 2014. Depreciation, amortization and impairments of non-financial assets amounted to €(14) million for the year ended 31 December 2015, compared to €(10) million for the year ended 31 December 2014. The increase in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2015 was primarily attributable to higher amortization of development assets.

Income from operations for BG Home for the year ended 31 December 2015 was €(73) million, compared to €(70) million for the year ended 31 December 2014, a decrease of €3 million.

Net capital expenditures for BG Home for the year ended 31 December 2015 was €(3) million, compared to €(9) million for the year ended 31 December 2014, a decrease of €6 million. The decrease was primarily attributable to higher proceeds received on the sale of fixed assets.

#### *Other*

Sales attributed to Other for the year ended 31 December 2015 were €9 million, compared to €2 million for the year ended 31 December 2014. Income from operations attributed to Other for the year ended 31 December 2015 was €(79) million, compared to €(127) million for the year ended 31 December 2014, an improvement of €48 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to net release of €4 million for the year ended 31 December 2015, primarily related to reevaluation of previously provisioned restructuring costs, compared to costs of €(27) million for the year ended 31 December 2014, primarily related to restructuring of centralized Group IT functions. Excluding restructuring costs, acquisition-related charges and other incidental charges, the improvement in income from operations was primarily attributable to lower costs related to global service units, including as a result of lower central IT costs, and gains on the sale of property, plant and equipment in the year ended 31 December 2015.

### **Comparison of Results of Operations for the Years Ended 31 December 2014 and 31 December 2013**

The Group's combined results of operations for the year ended 31 December 2014 compared to the year ended 31 December 2013 are discussed below. The discussion includes the results of the Business Groups and Market Groups.

#### *Sales*

Sales for the year ended 31 December 2014 were €6,981 million, compared to €7,129 million for the year ended 31 December 2013, a decrease of €148 million, or (2.1)%. Sales in all Business Groups were impacted by adverse foreign exchange movements, with the Group's sales experiencing adverse foreign currency effects of €(167) million for the year ended 31 December 2014, or (2.3)%, mainly arising from the weakening of the Indonesian rupiah, Indian rupee and Canadian dollar against the euro. The Group's acquisition of a 51% interest in GLC, which was included in the Group from 2 September 2014 to 31 December 2014 for the year ended 31 December 2014, also contributed €86 million of sales for that period. Comparable sales growth from the year ended 31 December 2013 to the year ended 31 December 2014 was (0.8)%. The decrease in comparable sales was primarily attributable to lower sales of conventional lighting products by BG Lamps, which were offset in part by increased sales of LED lighting products by BG LED and an increase in sales of BG Professional, in each case primarily as a result of the transition from conventional to LED lighting.

#### *Sales by Business Group*

The following table presents the Group's sales by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Comparable Sales Growth <sup>(1)</sup></b>	<b>Effects of Currency Movements</b>	<b>Effects of Changes in Consolidation</b>	<b>Nominal Sales Growth</b>
	<b>2014</b>	<b>2013</b>				
BG Lamps .....	3,119	3,557	(9.5)%	(2.8)%	—	(12.3)%
BG LED .....	958	772	26.3%	(2.2)%	—	24.1%
BG Professional .....	2,420	2,308	3.3%	(1.6)%	3.2%	4.9%
BG Home .....	482	490	(0.4)%	(1.4)%	0.2%	(1.6)%
Other .....	2	2	—	—	—	—
<b>Total .....</b>	<b>6,981</b>	<b>7,129</b>	<b>(0.8)%</b>	<b>(2.3)%</b>	<b>1.0%</b>	<b>(2.1)%</b>

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of comparable sales growth by Business Group for the years ended 31 December 2014 and 2013.



## Sales by Market Group

The following table presents the Group's sales by Market Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Comparable Sales Growth <sup>(1)</sup></b>	<b>Effects of Currency Movements</b>	<b>Effects of Changes in Consolidation</b>	<b>Nominal Sales Growth</b>
	<b>2014</b>	<b>2013</b>				
Europe .....	2,311	2,297	0.4%	0.2%	—	0.6%
Americas .....	2,156	2,223	0.4%	(3.2)%	(0.2)%	(3.0)%
Growth Markets .....	1,450	1,469	(1.2)%	(6.2)%	6.1%	(1.3)%
Greater China .....	624	692	(8.8)%	(1.0)%	—	(9.8)%
Global Businesses .....	440	448	0.7%	—	(2.5)%	(1.8)%
<b>Total .....</b>	<b>6,981</b>	<b>7,129</b>	<b>(0.8)%</b>	<b>(2.3)%</b>	<b>1.0%</b>	<b>(2.1)%</b>

(1) The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation. See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of comparable sales growth by Market Group for the years ended 31 December 2014 and 2013.

Sales in Europe for the year ended 31 December 2014 were €2,311 million, compared to €2,297 million for the year ended 31 December 2013, an increase of €14 million, or 0.6%. Comparable sales growth in Europe for the year ended 31 December 2014 was 0.4%. The increase in comparable sales was primarily attributable to BG Professional, driven by increased sales of LED-based luminaires as well as systems and services, and BG LED, which was largely offset by a decrease in BG Lamps, in each case due to the transition from conventional to LED lighting.

Sales in Americas for the year ended 31 December 2014 were €2,156 million, compared to €2,223 million for the year ended 31 December 2013, a decrease of €67 million, or (3.0)%. Nominal sales were negatively impacted by the weakening of other currencies, in particular the Canadian dollar and the Argentine peso, in relation to the euro for the year ended 31 December 2014, as compared to the year ended 31 December 2013. Comparable sales growth in Americas for the year ended 31 December 2014 was 0.4%. The increase in comparable sales was primarily attributable to growth in BG LED, which was partially offset by decreased sales in BG Lamps driven by the transition from conventional to LED lighting and bans on certain conventional lighting products and decreased sales in BG Professional as a result of the business transformation program in North America.

Sales in Growth Markets for the year ended 31 December 2014 were €1,450 million, compared to €1,469 million for the year ended 31 December 2013, a decrease of €19 million, or (1.3)%. Nominal sales were negatively impacted by a weakening of emerging market currencies, mainly the Indonesian rupiah, the Indian rupee and the Russian ruble, against the euro. In addition, the Group's acquisition of a 51% interest in GLC contributed €86 million of sales for the period 2 September 2014 to 31 December 2014. Excluding the effects of adverse currency movements and changes in consolidation, comparable sales growth in Growth Markets for the year ended 31 December 2014 was (1.2)%. The decrease in comparable sales was primarily attributable to a decline in BG Lamps, mainly due to lower sales in the Association of Southeast Asian Nations (“ASEAN”) region, which was partially offset by growth in BG Professional, driven by increased sales of LED-based luminaires as well as systems and services, and growth in BG LED, in each case due to the transition from conventional to LED lighting.

Sales in Greater China for the year ended 31 December 2014 were €624 million, compared to €692 million for the year ended 31 December 2013, a decrease of €68 million, or (9.8)%. Comparable sales growth in Greater China for the year ended 31 December 2014 was (8.8)%. The decrease in comparable sales was attributable to adverse macroeconomic conditions, which resulted in both liquidity constraints for certain of the Group's customers and a slow-down in the Group's sales related to projects, both of which contributed to declines in comparable sales in BG Lamps and BG Professional. These effects on comparable sales were partially offset by growth in sales by BG LED for the year ended 31 December 2014.

Sales in Global Businesses for the year ended 31 December 2014 were €440 million, compared to €448 million for the year ended 31 December 2013, a decrease of €8 million, or 1.8%. Sales were negatively impacted by consolidation changes of (2.5)%, which resulted from the transition of marketing channels from Global Businesses to commercial entities within other Market Groups (primarily in Growth Markets). Comparable sales growth in Global Businesses for the year ended 31 December 2014 was 0.7%. The increase in comparable sales was primarily attributable to growth in revenue from licensing of patents, which was primarily driven by the transition from conventional to LED lighting, which was partially offset by lower sales of components to third parties.

### ***Cost of sales***

Cost of sales for the year ended 31 December 2014 were €(4,671) million, compared to €(4,573) million for the year ended 31 December 2013, an increase of €98 million, or 2.1%. Restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales for the year ended 31 December 2014 were €(266) million, primarily relating to consolidation of the European warehouse footprint in BG Home and manufacturing footprint rationalization in BG Lamps and BG Professional, compared to €(37) million for the year ended 31 December 2013, primarily relating to manufacturing footprint rationalization in BG Lamps and BG Professional and consolidation of the European warehouse footprint in BG Home. This included other incidental charges attributable to cost of sales for the year ended 31 December 2014 of €(63) million, primarily relating to a €(68) million write-down of the assets relating to OLED. Cost of sales, excluding restructuring costs, acquisition-related charges and other incidental charges, for the year ended 31 December 2014 decreased by €131 million as compared to the year ended 31 December 2013, as a result of procurement savings, lower production costs as a result of the manufacturing footprint rationalization and productivity improvements.

### ***Gross margin***

Gross margin for the year ended 31 December 2014 was €2,310 million, compared to €2,556 million for the year ended 31 December 2013, a decrease of €246 million, or (9.6)%. Gross margin as a percentage of sales decreased from 35.9% for the year ended 31 December 2013 to 33.1% for the year ended 31 December 2014. The decrease in gross margin was primarily attributable to higher restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales for the year ended 31 December 2014 of €(266) million, compared to €(37) million for the year ended 31 December 2013. Excluding restructuring costs, acquisition-related charges and other incidental charges, adjusted gross margin for the year ended 31 December 2014 was €2,576 million, compared to €2,593 million for the year ended 31 December 2013, a decrease of €17 million, or 0.7%. As a percentage of sales, adjusted gross margin ratio increased from 36.4% for the year ended 31 December 2013 to 36.9% for the year ended 31 December 2014, or 0.5%.

### ***Selling expenses***

Selling expenses for the year ended 31 December 2014 were €(1,657) million, compared to €(1,722) million for the year ended 31 December 2013, a decrease of €65 million, or (3.8)%. Selling expenses as a percentage of sales decreased from 24.2% for the year ended 31 December 2013 to 23.7% for the year ended 31 December 2014. Restructuring costs, acquisition-related charges and other incidental charges attributable to selling expenses for the year ended 31 December 2014 were €(37) million, compared to €(30) million for the year ended 31 December 2013, in each case primarily relating to productivity improvements in the Group's sales organization. Selling expenses, excluding restructuring costs, acquisition-related charges and other incidental charges for the year ended 31 December 2014, decreased by €72 million as compared to the year ended 31 December 2013. The decrease in selling expenses for the year ended 31 December 2014 was largely driven by cost reductions relating to the business transformation programs of BG Professional in North America and BG Home in Europe (the consolidation of the European warehouse footprint), which was partly offset by the acquisition of a 51% interest in GLC. In addition, the Group incurred a €(32) million expense for the impairment of customer relationships in BG Home for the year ended 31 December 2013. The impairment charge was triggered by specific mature markets following the Group's implementation of a business transformation in respect of BG Home, which resulted in the Group reconsidering product ranges and growth rates. See Note E.13 to the Combined Financial Statements for more information on impairment of customer relationships.

### ***Research and development expenses***

R&D expenses for the year ended 31 December 2014 were €(395) million, compared to €(375) million, for the year ended 31 December 2013, an increase of €20 million, or 5.3%. R&D expenses as a percentage of sales increased from 5.3% for the year ended 31 December 2013 to 5.7% for the year ended 31 December 2014. Restructuring costs, acquisition-related charges and other incidental charges attributable to research and development expenses for the year ended 31 December 2014 were €(13) million, primarily due to aligning the number of FTEs to reflect the separation of the Lumileds business from the remaining lighting business of Royal Philips, compared to €(2) million for the year ended 31 December 2013. The increase in research and development expenses was primarily attributable to the increase in restructuring costs, acquisition-related charges and other incidental charges and due to higher investments in LED technology as a result of a continuous focus on cost-downs and new platforms.

### ***General and administrative expenses***

General and administrative expenses for the year ended 31 December 2014 were €(223) million, compared to €(233) million for the year ended 31 December 2013, a decrease of €10 million, or (4.3)%. General and administrative expenses as a percentage of sales decreased from 3.3% for the year ended 31 December 2013 to

3.2% for the year ended 31 December 2014. Restructuring costs, acquisition-related charges and other incidental charges attributable to general and administrative expenses for the year ended 31 December 2014 were €(11) million, primarily due to additional restructuring activities and the Group's acquisition of a 51% interest in GLC in the year ended 31 December 2014, compared to €(4) million for the year ended 31 December 2013. The decrease in general and administrative expenses was primarily attributable to reduced overhead activities as a result of a continued focus on reducing costs, which more than offset the increase in restructuring costs, acquisition-related charges and other incidental charges.

#### ***Impairment of goodwill***

Impairment of goodwill for the year ended 31 December 2014 was €(2) million, compared to €(26) million for the year ended 31 December 2013, a decrease of €24 million. An impairment charge of €(26) million was made in the fourth quarter of 2013 due to reduced growth expectations for BG Home due to slower anticipated recovery of certain markets and delays in the introduction of new product ranges. For further information see Note E.12 to the Combined Financial Statements.

#### ***Other business income***

Other business income for the year ended 31 December 2014 was €13 million, compared to €31 million for the year ended 31 December 2013, a decrease of €18 million, or (58.1)%. For the year ended 31 December 2013, other business income included a €11 million gain on sale of assets and €20 million of other operating income. For the year ended 31 December 2014, other business income included a €5 million gain on sale of assets and €8 million of other operating income.

#### ***Other business expenses***

Other business expenses for the year ended 31 December 2014 was €(5) million, compared to €(18) million for the year ended 31 December 2013, an improvement of €(13) million. For the year ended 31 December 2013, other business expenses included €(12) million of losses on sale of assets and €(6) million of other operating charges. For the year ended 31 December 2014, other business expenses included €(1) million of losses related to the sale of assets and €(4) million of other operating charges.

#### ***Income from operations***

Income from operations for the year ended 31 December 2014 was €41 million, compared to €213 million for the year ended 31 December 2013, a decrease of €172 million. The decrease was primarily attributable to higher restructuring costs, acquisition-related charges and other incidental charges. Other incidental charges included pension past service cost gains across the Group for year ended 31 December 2014 of €22 million, as compared to €12 million for the year ended 31 December 2013. Pension past service cost gains are recognized in cost of sales, selling expenses, R&D expenses or general and administrative expenses depending on the nature of the corresponding employee function. Income from operations excluding restructuring costs, acquisition-related charges and other incidental charges increased primarily as a result of reduced selling expenses, reduced general and administrative expenses and reduced impairment of goodwill, which were partially offset by reduced gross margin, increased R&D expenses and reduced other business income. The reasons for each of these changes are as described above.

#### ***Financial income***

Financial income for the year ended 31 December 2014 was unchanged from the year ended 31 December 2013 at €3 million and relates to interest on cash balances.

#### ***Financial expenses***

Financial expenses for the year ended 31 December 2014 were €(9) million, compared to €(4) million for the year ended 31 December 2013, an increase of €5 million. The increase was primarily attributable to increased net interest expense on tax balances.

#### ***Income tax expense***

Income tax expense for the year ended 31 December 2014 was €(66) million, compared to €(45) million for the year ended 31 December 2013, an increase of €21 million, or 46.7%. The increase was primarily attributable to an increase in non-deductible expenses and recognition of deferred tax assets, which were partly offset by non-taxable income.

#### ***Net income (loss)***

Net loss for the year ended 31 December 2014 was €(29) million, compared to net income of €168 million for the year ended 31 December 2013, a difference of €197 million. The decrease was primarily attributable to lower income from operations, as described above.

### **EBITA (unaudited)**

EBITA for the year ended 31 December 2014 was €149 million, compared to €380 million for the year ended 31 December 2013, a decrease of €231 million. Amortization related to acquisition-related intangible assets was €(108) million for the year ended 31 December 2014, compared to €(167) million for the year ended 31 December 2013, a decrease of €59 million, or (35.3)%. The decrease in amortization related to acquisition-related intangible assets was primarily attributable to higher levels of impairments for the year ended 31 December 2013 relating to fixed assets and goodwill of BG Home. The decrease in EBITA was primarily attributable to higher restructuring costs, acquisition-related charges and other incidental charges, as described above.

#### **EBITA by Business Group**

The following table presents the Group's EBITA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2014</b>	<b>2013</b>	<b>€ millions</b>	<b>%</b>
BG Lamps .....	358	587	(229)	(39.0)%
BG LED .....	(59)	(16)	(43)	268.8%
BG Professional .....	45	25	20	80.0%
BG Home .....	(68)	(90)	22	(24.4)%
Other .....	(127)	(126)	(1)	0.8%
<b>Total .....</b>	<b>149</b>	<b>380</b>	<b>(231)</b>	<b>(60.8)%</b>

#### **Adjusted EBITA (unaudited)**

Adjusted EBITA for the year ended 31 December 2014 was €476 million, compared to €453 million for the year ended 31 December 2013, an increase of €23 million, or 5.1%. Restructuring costs, acquisition-related costs and other incidental charges were €(327) million for the year ended 31 December 2014, compared to €(73) million for the year ended 31 December 2013, an increase of €254 million, or 347.9%. The increase in restructuring costs, acquisition-related costs and other incidental charges was primarily attributable to manufacturing footprint rationalization in BG Lamps and BG Professional and consolidation of the European warehouse footprint in BG Home for the year ended 31 December 2014. The increase in adjusted EBITA was primarily attributable to lower selling expenses driven by the business transformation program in North America and reduced general and administrative expenses, which were partially offset by reduced gross margin, increased R&D expenses and reduced other business income, as described above. As a percentage of sales, the adjusted EBITA ratio increased from 6.4% for the year ended 31 December 2013 to 6.8% for the year ended 31 December 2014, or 0.4%.

#### **Adjusted EBITA by Business Group**

The following table presents the Group's adjusted EBITA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2014</b>	<b>2013</b>	<b>€ millions</b>	<b>%</b>
BG Lamps .....	506	601	(95)	(15.8)%
BG LED .....	14	(17)	31	(182.4)%
BG Professional .....	102	51	51	100.0%
BG Home .....	(46)	(57)	11	(19.3)%
Other .....	(100)	(125)	25	(20.0)%
<b>Total .....</b>	<b>476</b>	<b>453</b>	<b>23</b>	<b>5.1%</b>

#### **EBITDA (unaudited)**

EBITDA for the year ended 31 December 2014 was €422 million, compared to €603 million for the year ended 31 December 2013, a decrease of €181 million, or (30.0)%. The decrease was primarily attributable to higher restructuring costs, acquisition-related charges and other incidental charges, as described above.

## EBITDA by Business Group

The following table presents the Group's EBITDA by Business Group for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2014</b>	<b>2013</b>	<b>€ millions</b>	<b>%</b>
	BG Lamps .....	474	690	(216)
BG LED .....	11	(1)	12	(1,200.0)%
BG Professional .....	93	80	13	16.3%
BG Home .....	(60)	(74)	14	(18.9)%
Other .....	(96)	(92)	(4)	4.3%
<b>Total .....</b>	<b>422</b>	<b>603</b>	<b>(181)</b>	<b>(30.0)%</b>

## Adjusted EBITDA (unaudited)

Adjusted EBITDA for the year ended 31 December 2014 was €665 million, compared to €659 million for the year ended 31 December 2013, an increase of €6 million, or 0.9%. The increase in adjusted EBITDA was primarily attributable to reduced selling expenses and reduced general and administrative expenses, which were partially offset by reduced gross margin, increased R&D expenses and reduced other business income, as described above. The adjusted EBITDA ratio increased from 9.2% for the year ended 31 December 2013 to 9.5% for the year ended 31 December 2014.

## Segment information

### BG Lamps

The following table presents certain financial information of BG Lamps for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended 31 December</b>		<b>Nominal Change</b>	
	<b>2014</b>	<b>2013</b>	<b>€ millions</b>	<b>%</b>
	Sales .....	3,119	3,557	(438)
<i>Sales including intersegment</i> .....	3,181	3,658	(477)	(13.0)%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(9.5)%	—	—	—
Income from operations .....	356	586	(230)	(39.2)%
<i>% of sales including intersegment</i> .....	11.2%	16.0%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	358	587	(229)	(39.0)%
<i>% of sales including intersegment</i> .....	11.3%	16.0%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	506	601	(95)	(15.8)%
<i>% of sales including intersegment</i> .....	15.9%	16.4%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	474	690	(216)	(31.3)%
<i>% of sales including intersegment</i> .....	14.9%	18.9%	—	—
Net capital expenditures <sup>(1)</sup> .....	(33)	(45)	12	(26.7)%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2014 and 2013.

Sales of BG Lamps for the year ended 31 December 2014 were €3,119 million, compared to €3,557 million for the year ended 31 December 2013, a decrease of €438 million, or (12.3)%. Comparable sales growth for BG Lamps from the year ended 31 December 2013 to the year ended 31 December 2014 was (9.5)%. The decrease in comparable sales was primarily attributable to the transition from conventional to LED lighting, as well as price erosion in respect of conventional lighting products. Sales declined across all Market Groups, with the biggest decline in Greater China, due to the reasons described above.

Sales including intersegment for BG Lamps for the year ended 31 December 2014 were €3,181 million, compared to €3,658 million for the year ended 31 December 2013, a decrease of €477 million, or (13.0)%.

EBITA for BG Lamps for the year ended 31 December 2014 was €358 million, or 11.3% of sales including intersegment, compared to €587 million, or 16.0% of sales including intersegment, for the year ended 31 December 2013. Amortization related to acquisition-related intangible assets was €(2) million for the year ended 31 December 2014, compared to €(1) million for the year ended 31 December 2013. The decrease in EBITA for the year ended 31 December 2014 was primarily attributable to manufacturing footprint rationalization in BG Lamps.

Adjusted EBITA for BG Lamps for the year ended 31 December 2014 was €506 million, or 15.9% of sales including intersegment, compared to €601 million, or 16.4% of sales including intersegment for the year ended



31 December 2013, a decrease of €95 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(148) million for the year ended 31 December 2014 compared to €(14) million for the year ended 31 December 2013. The decrease in adjusted EBITA was primarily attributable to the reduction in sales as a result of the transition from conventional to LED lighting, with operating expenses declining at a lower rate than the scale of operations. However, due to manufacturing footprint rationalization and procurement savings, gross margins remain broadly stable.

EBITDA for BG Lamps for the year ended 31 December 2014 was €474 million, or 14.9% of sales including intersegment, compared to €690 million, or 18.9% of sales including intersegment, for the year ended 31 December 2013. Depreciation, amortization and impairments of non-financial assets amounted to €(118) million for the year ended 31 December 2014 compared to €(104) million for the year ended 31 December 2013. The increase in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2014 was primarily attributable to increased write-downs due to manufacturing footprint rationalization, due to €(31) million of write-downs for the year ended 31 December 2014 compared to €(4) million of write-downs for the year ended 31 December 2013. Depreciation, amortization and impairments of non-financial assets decreased by €13 million from the year ended 31 December 2013 to the year ended 31 December 2014 excluding write-downs.

Income from operations for BG Lamps for the year ended 31 December 2014 was €356 million, compared to €586 million for the year ended 31 December 2013, a decrease of €230 million, or (39.2)%, for the reasons described above.

Net capital expenditures for BG Lamps for the year ended 31 December 2014 was €(33) million, compared to €(45) million for the year ended 31 December 2013, a decrease of €12 million. The decrease was primarily attributable to manufacturing footprint rationalization.

#### BG LED

The following table presents certain financial information of BG LED for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended</b>		<b>Nominal Change</b>	
	<b>31 December</b>		<b>€ millions</b>	<b>%</b>
	<b>2014</b>	<b>2013</b>		
Sales . . . . .	958	772	186	24.1%
<i>Sales including intersegment</i> . . . . .	1,025	828	197	23.8%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> . . . . .	26.3%	—	—	—
Income from operations . . . . .	(62)	(20)	(42)	210.0%
<i>% of sales including intersegment</i> . . . . .	(6.0)%	(2.4)%	—	—
EBITA (unaudited) <sup>(1)</sup> . . . . .	(59)	(16)	(43)	268.8%
<i>% of sales including intersegment</i> . . . . .	(5.8)%	(1.9)%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> . . . . .	14	(17)	31	(182.4)%
<i>% of sales including intersegment</i> . . . . .	1.4%	(2.1)%	—	—
EBITDA (unaudited) <sup>(1)</sup> . . . . .	11	(1)	12	(1,200.0)%
<i>% of sales including intersegment</i> . . . . .	1.1%	(0.1)%	—	—
Net capital expenditures <sup>(1)</sup> . . . . .	(27)	(29)	2	(6.9)%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2014 and 2013.

Sales of BG LED for the year ended 31 December 2014 were €958 million, compared to €772 million for the year ended 31 December 2013, an increase of €186 million, or 24.1%. Comparable sales growth for BG LED from the year ended 31 December 2013 to the year ended 31 December 2014 was 26.3%. The increase in comparable sales was primarily attributable to higher sales volume of LED products due to the market-wide transition from conventional lighting to LED lighting, which was partially offset by lower LED product selling prices due to market pressure to maintain competitive pricing. Sales increased across all Market Groups, with the strongest growth in Europe and Americas.

Sales including intersegment for BG LED for the year ended 31 December 2014 were €1,025 million, compared to €828 million for the year ended 31 December 2013, an increase of €197 million, or 23.8%.

EBITA for BG LED for the year ended 31 December 2014 was €(59) million, or (5.8)% of sales including intersegment, compared to €(16) million, or (1.9)% of sales including intersegment, for the year ended 31 December 2013, a decrease of €43 million. Amortization related to acquisition-related intangible assets was €(3) million for the year ended 31 December 2014, compared to €(4) million for the year ended 31 December 2013. The decrease in EBITA was primarily attributable to higher other incidental charges for the year ended 31 December 2014.

Adjusted EBITA for BG LED for the year ended 31 December 2014 was €14 million, or 1.4% of sales including intersegment, compared to €(17) million, or (2.1)% of sales including intersegment, for the year ended 31 December 2013, an increase of €31 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(73) million for the year ended 31 December 2014, including other incidental charges of €(68) million relating to a write-down of the assets relating to OLED. The increase in adjusted EBITA was primarily attributable to higher gross margins due to lower obsolescence costs, lower bill-of-material costs from product redesign, and procurement savings. The effects of price erosion were largely offset by these lower bill-of-material costs.

EBITDA for BG LED for the year ended 31 December 2014 was €11 million, or 1.1% of sales including intersegment, compared to €(1) million, or (0.1)% of sales including intersegment, for the year ended 31 December 2013. Depreciation, amortization and impairments of non-financial assets amounted to €(73) million for the year ended 31 December 2014 compared to €(19) million for the year ended 31 December 2013. The increase in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2014 was primarily attributable to a €(49) million write-down of fixed assets relating to OLED.

Income from operations for BG LED for the year ended 31 December 2014 was €(62) million, compared to €(20) million for the year ended 31 December 2013, a decrease of €42 million, for the reasons described above.

Net capital expenditures for BG LED for the year ended 31 December 2014 was €(27) million, compared to €(29) million for the year ended 31 December 2013, a decrease of €2 million. The decrease was primarily due to reduced capital expenditures in relation to OLED.

#### *BG Professional*

The following table presents certain financial information of BG Professional for each of the periods indicated.

*In € millions, except percentages*

	For the year ended 31 December		Nominal Change	
	2014	2013	€ millions	%
Sales .....	2,420	2,308	112	4.9%
<i>Sales including intersegment</i> .....	2,433	2,337	96	4.1%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	3.3%	—	—	—
Income from operations .....	(56)	(75)	19	(25.3)%
<i>% of sales including intersegment</i> .....	(2.3)%	(3.2)%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	45	25	20	80.0%
<i>% of sales including intersegment</i> .....	1.8%	1.1%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	102	51	51	100.0%
<i>% of sales including intersegment</i> .....	4.2%	2.2%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	93	80	13	16.3%
<i>% of sales including intersegment</i> .....	3.8%	3.4%	—	—
Net capital expenditures <sup>(1)</sup> .....	(26)	(57)	31	(54.4)%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2014 and 2013.

Sales of BG Professional for the year ended 31 December 2014 were €2,420 million, compared to €2,308 million for the year ended 31 December 2013, an increase of €112 million, or 4.9%. Sales of BG Professional were impacted by the Group’s acquisition of a 51% interest in GLC, which was included in BG Professional from 2 September 2014 to 31 December 2014 and contributed €86 million of sales for that period. Comparable sales growth for BG Professional from the year ended 31 December 2013 to the year ended 31 December 2014 was 3.3%. The increase in comparable sales was primarily attributable to growth in sales of LED luminaires and systems in most geographic regions as a result of the transition from conventional to LED lighting, which was partially offset by weaker sales in North America due to impacts of the transformation program. Sales were higher in Europe and Growth Markets, but were partially offset by declines in Americas and Greater China.

Sales including intersegment for BG Professional for the year ended 31 December 2014 were €2,433 million, compared to €2,337 million for the year ended 31 December 2013, an increase of €96 million, or 4.1%.

EBITA for BG Professional for the year ended 31 December 2014 was €45 million, or 1.8% of sales including intersegment, compared to €25 million, or 1.1% of sales including intersegment, for the year ended 31 December 2013, an increase of €20 million, or 80.0%. Amortization related to acquisition-related intangible assets for the year ended 31 December 2014 was €(101) million, compared to €(100) million for the year ended 31 December 2013, in each case relating primarily to amortization of customer relationships, brands and

technology capitalized from prior acquisitions (in particular the acquisition of Genlyte in 2008). The increase in EBITA was primarily attributable to improvement in gross margin, which was partially offset by an increase in restructuring costs related to manufacturing footprint rationalization.

Adjusted EBITA for BG Professional for the year ended 31 December 2014 was €102 million, or 4.2% of sales including intersegment, compared to €51 million, or 2.2% of sales including intersegment, for the year ended 31 December 2013, an increase of €51 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(57) million for the year ended 31 December 2014 compared to €(26) million for the year ended 31 December 2013, and in each case related primarily to manufacturing footprint rationalization. The increase in adjusted EBITA was primarily attributable to improvement in gross margin following an increase in LED penetration, higher procurement savings, and an improvement in factory productivity due to manufacturing footprint rationalization.

EBITDA for BG Professional for the year ended 31 December 2014 was €93 million, or 3.8% of sales including intersegment, compared to €80 million, or 3.4% of sales including intersegment, for the year ended 31 December 2013. Depreciation, amortization and impairments of non-financial assets amounted to €(149) million for the year ended 31 December 2014, compared to €(155) million for the year ended 31 December 2013. The decrease in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2014 was primarily attributable to lower write-downs of fixed assets.

Income from operations for BG Professional for the year ended 31 December 2014 was €(56) million, compared to €(75) million for the year ended 31 December 2013, an increase of €19 million.

Net capital expenditures for BG Professional for the year ended 31 December 2014 was €(26) million, compared to €(57) million for the year ended 31 December 2013, a decrease of €31 million. The decrease was primarily attributable to lower growth investments and higher proceeds from disposal of property, plant and equipment.

#### BG Home

The following table presents certain financial information of BG Home for each of the periods indicated.

<i>In € millions, except percentages</i>	<b>For the year ended</b>		<b>Nominal Change</b>	
	<b>31 December</b>		<b>€ millions</b>	<b>%</b>
	<b>2014</b>	<b>2013</b>		
Sales .....	482	490	(8)	(1.6)%
<i>Sales including intersegment</i> .....	485	492	(7)	(1.4)%
Comparable Sales Growth (%) (unaudited) <sup>(1)</sup> .....	(0.4)%	—	—	—
Income from operations .....	(70)	(152)	82	(53.9)%
<i>% of sales including intersegment</i> .....	(14.4)%	(30.9)%	—	—
EBITA (unaudited) <sup>(1)</sup> .....	(68)	(90)	22	(24.4)%
<i>% of sales including intersegment</i> .....	(14.0)%	(18.3)%	—	—
Adjusted EBITA (unaudited) <sup>(1)</sup> .....	(46)	(57)	11	(19.3)%
<i>% of sales including intersegment</i> .....	(9.5)%	(11.6)%	—	—
EBITDA (unaudited) <sup>(1)</sup> .....	(60)	(74)	14	(18.9)%
<i>% of sales including intersegment</i> .....	(12.4)%	(15.0)%	—	—
Net capital expenditures <sup>(1)</sup> .....	(9)	(6)	(3)	50.0%

(1) See “—Non-IFRS financial measures” for more information on non-IFRS financial measures and reconciliation of non-IFRS financial measures to IFRS financial measures for the years ended 31 December 2014 and 2013.

Sales of BG Home for the year ended 31 December 2014 were €482 million, compared to €490 million for the year ended 31 December 2013, a decrease of €8 million, or (1.6)%. Comparable sales growth for BG Home from the year ended 31 December 2013 to the year ended 31 December 2014 was (0.4)%. The decrease in comparable sales was primarily attributable to a large product pruning exercise resulting in discontinuation of a portion of the product portfolio as well as more selective customer focus in BG Home in Europe, which was partially offset by increased sales of home systems. Sales declined in all Market Groups except Growth Markets.

Sales including intersegment for BG Home for the year ended 31 December 2014 were €485 million, compared to €492 million for the year ended 31 December 2013, a decrease of €7 million, or (1.4)%.

EBITA for BG Home for the year ended 31 December 2014 was €(68) million, or (14.0)% of sales including intersegment, compared to €(90) million, or (18.3)% of sales including intersegment, for the year ended 31 December 2013, an increase of €22 million. Amortization related to acquisition-related intangible assets was €(2) million for the year ended 31 December 2014, compared to €(62) million for the year ended 31 December 2013 due to €(32) million of impairments of customer relationships and €(26) million of impairments of goodwill

at BG Home for the year ended 31 December 2013. See Note E.12 to the Combined Financial Statements for more information on impairments of goodwill and see Note E.13 to the Combined Financial Statements for more information on impairment of customer relationships. The improvement in EBITA was primarily attributable to improved performance of consumer luminaires and lower restructuring costs in connection with the business transformation program in the consumer luminaires business in Europe.

Adjusted EBITA for BG Home for the year ended 31 December 2014 was €(46) million, or (9.5)% of sales including intersegment, compared to €(57) million, or (11.6)% of sales including intersegment, for the year ended 31 December 2013, an increase of €11 million. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(22) million for the year ended 31 December 2014, compared to €(33) million for the year ended 31 December 2013, and in each case related primarily to restructuring costs in connection with the business transformation program in the consumer luminaires business in Europe. The improvement in adjusted EBITA was primarily attributable to improved performance of consumer luminaires, which was partly offset by higher investments in home systems.

EBITDA for BG Home for the year ended 31 December 2014 was €(60) million, or (12.4)% of sales including intersegment, compared to €(74) million, or (15.0)% of sales including intersegment, for the year ended 31 December 2013. Depreciation, amortization and impairments of non-financial assets amounted to €(10) million for the year ended 31 December 2014 compared to €(78) million for the year ended 31 December 2013. The decrease in depreciation, amortization and impairments of non-financial assets for the year ended 31 December 2014 was primarily attributable to lower write-downs of fixed assets.

Income from operations for BG Home for the year ended 31 December 2014 was €(70) million, compared to €(152) million for the year ended 31 December 2013, an increase of €82 million.

Net capital expenditures for BG Home for the year ended 31 December 2014 was €(9) million, compared to €(6) million for the year ended 31 December 2013, an increase of €3 million. The increase was primarily attributable to higher investments in growth assets.

#### *Other*

Sales attributed to Other for the year ended 31 December 2014 were €2 million, compared to €2 million for the year ended 31 December 2013. Restructuring costs, acquisition-related charges and other incidental charges amounted to €(27) million for the year ended 31 December 2014, primarily related to restructuring of centralized Group IT functions, compared to €(1) million for the year ended 31 December 2013. Income from operations attributed to Other for the year ended 31 December 2014 was €(127) million, compared to €(126) million for the year ended 31 December 2013.

#### **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 the Group, this seasonality effect may most strongly influence sales by BG Lamps.

However, the Group's sales are more strongly influenced by other trends, including the overall decline in sales of BG Lamps and overall increase in sales of BG LED as a result of transition from conventional lighting to LED lighting, and the timing of specific projects in the case of sales of BG Professional.

#### **Liquidity and Capital Resources**

##### *Sources and uses of cash*

The Group primarily uses cash to finance its capital expenditure, working capital requirements and acquisitions. Following the Offering, the Group may also make dividend payments to shareholders of the Company from time to time in accordance with its dividend policy. For more information on the dividend policy of the Group, see "Dividend Policy".

The Group has historically financed its capital expenditures, working capital requirements and acquisitions through a combination of cash flow from operating activities and short-term financing from Royal Philips. The Group is expected to be included in the Royal Philips funding program, which includes certain cash pooling arrangements, until the third quarter of 2016. Under this funding program, the Group invests excess short term liquidity in Royal Philips' cash pooling arrangements and is granted overdraft facilities and/or short-term loans by Royal Philips or affiliated financing companies to the extent operating activities cannot be otherwise financed through their operating cash flow. This funding program also provided for a Royal Philips-wide system for clearing and settlement of intra-group and external payables and receivables. The Group engages in proactive

management of its levels of inventories, accounts receivable and trade creditors. Management of inventory has been supported by portfolio rationalization programs in BG Lamps, BG Home and BG Professional in North America.

The Group expects that, following completion of the Offering, capital expenditures, working capital requirements and acquisitions will be financed through cash flows from operating activities, cash and cash equivalents on balance sheet following draw down of its new five-year approximately €1,200 million equivalent Term Loan Facility and the application of proceeds thereof, and its new five-year €500 million equivalent Revolving Credit Facility. The Group's participation in the Royal Philips funding program is expected to be replaced in the third quarter of 2016 by a funding program operated by Philips Lighting Holding B.V., a subsidiary of the Group, that will provide cash pooling arrangements, clearing and settlement of intra-group and external payables and receivables and financing and liquidity investment opportunities to participating members of the Group. The liabilities owed by the Group to Royal Philips will be repaid shortly prior to or following the Settlement Date financed by borrowings under the Term Loan Facility, see "—Financing Structure Following the Offering".

### **Working capital statement**

The Company believes that the working capital available to the Group is sufficient for the Group's present requirements; that is for at least twelve months following the date of this Prospectus.

### **Cash flows**

The following table presents primary components of the Group's cash flows for each of the periods indicated.

<i>In € millions</i>	<b>For the three month period ended 31 March (unaudited)</b>		<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>					
<b>Net income (loss)</b>	<b>14</b>	<b>30</b>	<b>240</b>	<b>(29)</b>	<b>168</b>
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>					
Depreciation, amortization and impairments of non-financial assets	78	73	315	381	390
Impairment of non-current financial assets	3	—	4	—	—
Net gain on sale of assets	(1)	—	(26)	(2)	(1)
Interest income	(4)	—	(3)	(3)	(3)
Interest expense on debt, borrowings and other liabilities	18	2	7	9	4
Income tax expense	40	23	83	66	45
Share-based compensation	6	7	24	22	27
Decrease (increase) in working capital	(102)	79	209	(33)	(231)
<i>Decrease (increase) in receivables and other current assets</i>	28	28	—	(17)	(206)
<i>Decrease (increase) in inventories</i>	(47)	(65)	29	114	(94)
<i>Increase (decrease) in accounts payable, accrued and other current liabilities</i>	(83)	116	180	(130)	69
Increase (decrease) in non-current receivables, other assets and other liabilities	(63)	2	(29)	—	4
Increase (decrease) in provisions	(31)	(23)	(79)	116	(86)
Decrease (increase) in assets classified as held for sale	—	—	—	(1)	(1)
Interest paid	(1)	(2)	(2)	(5)	—
Income taxes paid	(17)	(7)	(26)	(43)	(54)
<b>Net cash provided by operating activities</b>	<b>(60)</b>	<b>184</b>	<b>717</b>	<b>478</b>	<b>262</b>
<b>Cash flows from investing activities</b>					
Net capital expenditures	(18)	(28)	(85)	(123)	(178)
<i>Additions of intangible assets</i>	(4)	(8)	(38)	(51)	(38)
<i>Capital expenditures on property, plant and equipment</i>	(16)	(20)	(98)	(109)	(159)
<i>Proceeds from disposal of property, plant and equipment</i>	2	—	51	37	19
Proceeds from other non-current financial assets	—	17	31	—	—
Purchase of businesses, net of cash acquired	—	(3)	(11)	(125)	—
Dividends received from investments in associates	—	—	—	(1)	2
<b>Net cash used for investing activities</b>	<b>(18)</b>	<b>(14)</b>	<b>(65)</b>	<b>(249)</b>	<b>(176)</b>



In € millions

	For the three month period ended 31 March		For the year ended 31 December		
	2016	2015	2015	2014	2013
<b><i>Cash flows from financing activities</i></b>					
Funding by (distribution to) Royal Philips	(349)	(149)	(626)	(200)	(95)
Capital contribution from Royal Philips	692	—	—	—	—
Proceeds from issuance (payments) of debt	3	(24)	(12)	(1)	(2)
<b>Net cash used for financing activities</b>	<b>346</b>	<b>(173)</b>	<b>(638)</b>	<b>(201)</b>	<b>(97)</b>
<b>Net cash (used for) provided by continuing operations</b>	<b>268</b>	<b>(3)</b>	<b>14</b>	<b>28</b>	<b>(11)</b>
Effect of changes in exchange rates on cash and cash equivalents	2	(9)	(6)	(2)	2
Cash and cash equivalents at the beginning of the year	83	75	75	49	58
<b>Cash and cash equivalents at the end of the year</b>	<b>353</b>	<b>63</b>	<b>83</b>	<b>75</b>	<b>49</b>

*Comparison of cash flows for the three month periods ended 31 March 2016 and 31 March 2015*

Cash flows from operating activities

Net cash provided by operating activities for the three month period ended 31 March 2016 was €(60) million, compared to €184 million for the three month period ended 31 March 2015, a decrease of €244 million. The decrease in net cash provided by operating activities primarily reflects a negative adjustment for change in working capital, as well as lower net income for the three month period ended 31 March 2016 of €14 million, compared to net income of €30 million for the three month period ended 31 March 2015. In addition, cash provided by operating activities for the three month period ended 31 March 2016 included an outflow of €45 million related to pension liability de-risking in the United States. From an operational perspective, net cash provided by operating activities decreased from the three month period ended 31 March 2015 to the three month period ended 31 March 2016 as a result of higher payments to suppliers due to the timing of vendor payments.

Change in working capital resulted in a negative adjustment to net income for the three month period ended 31 March 2016 of €(102) million, compared to a positive adjustment of €79 million for the three month period ended 31 March 2015. Within change in working capital, changes in accounts payable, accrued and other current liabilities for the three month period ended 31 March 2016 resulted in a negative adjustment to net income of €(83) million, compared to a positive adjustment of €116 million for the three month period ended 31 March 2015, mainly as a result of a decrease in trade payables due to the timing of vendor payments, as well as the settlement of shared payable positions resulting from the Separation.

Cash flows from investing activities

Net cash used for investing activities for the three month period ended 31 March 2016 was €(18) million, compared to €(14) million for the three month period ended 31 March 2015, an increase of €4 million, or 28.6%. This increase was primarily attributable to the lower proceeds from the sale of other non-current financial assets in the three month period ended 31 March 2015, which was partly offset a lower level of net capital expenditures for the three month period ended 31 March 2016 as compared to the three month period ended 31 March 2015.

Cash flows from financing activities

Net cash used for financing activities for the three month period ended 31 March 2016 was €346 million, compared to €(173) million for the three month period ended 31 March 2015, a difference of €519 million. The difference was primarily due to a capital contribution from Royal Philips of €692 million for the three month period ended 31 March 2016, which has been provided to the Group to satisfy funding requirements following the separation of activities from Royal Philips. Net cash flows from (used in) financing activities reported in the Condensed Combined Interim Financial Statements are reflective of the results of the Royal Philips central cash management and funding of operations currently attributable to the Group. Funding by (distribution to) Royal Philips relate to the Group's participation in Royal Philips' funding program, which includes certain cash pooling arrangements in which the Group invests excess short-term liquidity. Cash deposits of Royal Philips are pooled and transferred to a central treasury function on a daily basis wherever possible. The Group's participation in the Royal Philips funding program is expected to be replaced in the third quarter of 2016 by a funding program operated by Philips Lighting Holding B.V., a subsidiary of the Group, that will provide cash pooling arrangements, clearing and settlement of intra-group and external payables and receivables and financing and liquidity investment opportunities to participating members of the Group.

### Cash and cash equivalents

For the above reasons, cash and cash equivalents as of 31 March 2016 were €353 million, compared to €63 million for 31 March 2015, an increase of €290 million. Amounts for cash and cash equivalents are reflected in the Condensed Combined Interim Financial Statements only for those activities of the Group that operated or existed in separate dedicated Group legal entities, during the period of the Condensed Combined Interim Financial Statements. For all other activities, changes in cash and cash equivalent balances form part of funding by (distribution to) Royal Philips.

### Net capital expenditures

Net capital expenditures for the three month period ended 31 March 2016 were €(18) million, compared to €(28) million for the three month period ended 31 March 2015, a decrease of €10 million, or 35.7%. The decrease was attributable to higher proceeds from the disposal of property plant and equipment, lower additions to intangible assets and lower capital expenditures on property, plant and equipment. Proceeds from the disposal of property, plant and equipment for the three month period ended 31 March 2016 were €2 million, relating to the sale of a commercial building, as well as disposals related to manufacturing footprint rationalization. Additions to intangible assets were €(4) million for the three month period ended 31 March 2016, compared to €(8) million the three month period ended 31 March 2015, which was primarily due to lower capitalizations of development costs.

### Free cash flow

Free cash flow for the three month period ended 31 March 2016 was €(78) million, compared to €156 million for the three month period ended 31 March 2015, a decrease of €234 million. The decrease was primarily attributable to lower income from operations and differences in adjustments for net working capital for the three month period ended 31 March 2016 as compared to the three month period ended 31 March 2015, as further described above.

### *Comparison of cash flows for the years ended 31 December 2015 and 31 December 2014*

#### Cash flows from operating activities

Net cash provided by operating activities for the year ended 31 December 2015 was €717 million, compared to €478 million for the year ended 31 December 2014, an increase of €239 million, or 50.0%. The increase in net cash provided by operating activities primarily reflects higher net income for the year ended 31 December 2015 of €240 million, compared to net loss of €(29) million for the year ended 31 December 2014, as well as a positive adjustment to net income from change in working capital. Higher net income for the year ended 31 December 2015 was primarily attributable to higher income from operations, attributable to a decrease of restructuring costs, acquisition-related charges and other incidental charges, which was partly offset by higher income taxes. Net cash provided by operating activities was negatively impacted by, among other factors, a negative adjustment to net income for change in provisions for the year ended 31 December 2015 of €(79) million, compared to a positive adjustment of €116 million for the year ended 31 December 2014, due primarily to differences in restructuring-related provisions. From an operational perspective, net cash provided by operating activities increased from the year ended 31 December 2014 to the year ended 31 December 2015 as a result of higher net income and lower payments to suppliers.

Change in working capital resulted in a positive adjustment to net income for the year ended 31 December 2015 of €209 million, compared to a negative adjustment of €(33) million for the year ended 31 December 2014. Within change in working capital, changes in accounts payable, accrued and other current liabilities for the year ended 31 December 2015 resulted in a positive adjustment to net income of €180 million, compared to a negative adjustment of €(130) million for the year ended 31 December 2014, mainly as a result of the timing of vendor payments and an increase of payables due to Royal Philips. Changes in inventories for the year ended 31 December 2015 resulted in a positive adjustment to net income of €29 million, compared to €114 million for the year ended 31 December 2014, as a result of inventory optimization programs.

#### Cash flows from investing activities

Net cash used for investing activities for the year ended 31 December 2015 was €(65) million, compared to €(249) million for the year ended 31 December 2014, a decrease of €184 million, or 73.9%. This decrease was primarily attributable to the acquisition of a 51% interest in GLC in the year ended 31 December 2014 and a lower level of net capital expenditures for the year ended 31 December 2015 as compared to the year ended 31 December 2014.

#### Cash flows from financing activities

Net cash used for financing activities for the year ended 31 December 2015 was €(638) million, compared to €(201) million for the year ended 31 December 2014, a difference of €437 million. The difference was

primarily due to distributions to Royal Philips of €(626) million for the year ended 31 December 2015 compared to distributions to Royal Philips of €(200) million for the year ended 31 December 2014. Net cash flows from (used in) financing activities reported in the Combined Financial Statements are reflective of the results of the Royal Philips central cash management and funding of operations currently attributable to the Group. Funding by (distributions to) Royal Philips relate to the Group's participation in Royal Philips' funding program, which includes certain cash pooling arrangements in which the Group invests excess short-term liquidity. Cash deposits of Royal Philips are pooled and transferred to a central treasury function on a daily basis wherever possible.

#### Cash and cash equivalents

For the above reasons, cash and cash equivalents as of 31 December 2015 were €83 million, compared to €75 million for 31 December 2014, an increase of €8 million, or 10.7%. Amounts for cash and cash equivalents are reflected in the Combined Financial Statements only for those activities of the Group that operated or existed in separate dedicated Group legal entities, during the period of the Combined Financial Statements. For all other activities, changes in cash and cash equivalent balances form part of funding by (distribution to) Royal Philips.

#### Net capital expenditures

Net capital expenditures for the year ended 31 December 2015 were €(85) million, compared to €(123) million for the year ended 31 December 2014, a decrease of €38 million, or 30.9%, which was attributable to lower additions to intangible assets, lower capital expenditures on property, plant and equipment and higher proceeds from disposal of property, plant and equipment. Additions to intangible assets were €(38) million for the year ended 31 December 2015, compared to €(51) million the year ended 31 December 2014, which was primarily due to lower capital expenditures attributable to Other as a result of reduced IT capitalization. Capital expenditure on property plant and equipment for the year ended 31 December 2015 was €(98) million, compared to €(109) million for the year ended 31 December 2014, primarily due to lower levels of commercial property renovations of Other for the year ended 31 December 2015. Proceeds from the disposal of property, plant and equipment for the year ended 31 December 2015 were €51 million, compared to €37 million for the year ended 31 December 2014, and included sale of a commercial building for €22 million, as well as several disposals related to manufacturing footprint rationalization.

#### Free cash flow (unaudited)

Free cash flow for the year ended 31 December 2015 was €632 million, compared to €355 million for the year ended 31 December 2014, an increase of €277 million. The increase was primarily attributable to higher income from operations and overall lower net working capital for the year ended 31 December 2015 as compared to the year ended 31 December 2014, as further described above.

#### *Comparison of cash flows for the years ended 31 December 2014 and 31 December 2013*

#### Cash flows from operating activities

Net cash provided by operating activities for the year ended 31 December 2014 was €478 million, compared to €262 million for the year ended 31 December 2013, an increase of €216 million, or 82.4%. The increase in net cash provided by operating activities was primarily attributable to lower negative adjustments to net income for change in working capital. The increase in net cash provided by operating activities also reflects the positive adjustment to net income for change in provisions for the year ended 31 December 2014 of €116 million, compared to a negative adjustment of €(86) million for the year ended 31 December 2013, due primarily to differences in restructuring-related provisions. Net cash provided by operating activities was negatively impacted by, among other factors, net loss for the year ended 31 December 2014 of €(29) million, compared to net income of €168 million for the year ended 31 December 2013, primarily as a result of higher restructuring costs, acquisition-related charges and other incidental charges for the year ended 31 December 2014. From an operational perspective, net cash provided by operating activities increased from the year ended 31 December 2013 to the year ended 31 December 2014 as a result of higher receipts from customers and lower payments for inventories.

Change in working capital resulted in a negative adjustment to net income for the year ended 31 December 2014 of €(33) million, compared to €(231) million for the year ended 31 December 2013. Within change in working capital, change in inventories for the year ended 31 December 2014 resulted in a positive adjustment to net income of €114 million, compared to €(94) million for the year ended 31 December 2013, as a result of inventory optimization programs, mainly impacting BG Professional and BG Home. Change in receivables and other current assets for the year ended 31 December 2013 resulted in a negative adjustment to net income of €(206) million, largely due to a build-up of receivables in Greater China from extended payment terms granted to certain customers. Change in receivables and other current assets for the year ended 31 December 2014 resulted in a lower negative adjustment of €(17) million, largely due to a normalization of payment terms in Greater

China, as well as an increased focus on cash collection across all Market Groups. Change in accounts payable, accrued and other current liabilities for the year ended 31 December 2014 resulted in a negative adjustment to net income of €(130) million, compared to a positive adjustment of €69 million for the year ended 31 December 2013, as a result of lower overdue payables and the renegotiation of payment terms with certain suppliers.

#### Cash flows from investing activities

Net cash used for investing activities for the year ended 31 December 2014 was €(249) million, compared to €(176) million for the year ended 31 December 2013, an increase of €73 million, or 41.5%. This increase was primarily attributable to the acquisition of a 51% interest in GLC, which was partly offset by proceeds from the disposal of assets relating to manufacturing footprint rationalization of €37 million for the year ended 31 December 2014, and a lower level of net capital expenditures for the year ended 31 December 2014 as compared to the year ended 31 December 2013 as a result of completion of a BG Professional factory, which contributed €(18) million to purchases of tangible fixed assets for the year ended 31 December 2013. The Group's acquisition of the interest in GLC was completed on 2 September 2014 and GLC was consolidated as of that date as part of the Group within BG Professional. The interest in GLC was acquired for a total amount of €146 million (on a cash-free, debt-free basis) and taking into account closing conditions, the Group paid an amount of €148 million. The overall cash position of GLC on the transaction date was €23 million resulting in a net cash outflow in relation to this acquisition of €125 million.

#### Cash flows from financing activities

Net cash used for financing activities for the year ended 31 December 2014 was €(201) million, compared to net cash used for financing activities of €(97) million for the year ended 31 December 2013, an increase of €104 million. The increase in net cash used for financing activities was primarily attributable to distributions to Royal Philips of €(200) million for the year ended 31 December 2014 compared to distributions to Royal Philips of €(95) million for the year ended 31 December 2013. Net cash flows from (used in) financing activities reported in the Group's Combined Financial Statements are reflective of the results of Royal Philips' central cash management and funding of operations currently attributable to the Group. Funding by (distributions to) Royal Philips relate to the Group's participation in Royal Philips' funding program, which includes certain cash pooling arrangements in which the Group invests excess short-term liquidity. Cash deposits of Royal Philips are pooled and transferred to a central treasury function on a daily basis wherever possible.

#### Cash and cash equivalents

For the above reasons, cash and cash equivalents as of 31 December 2014 was €75 million, compared to €49 million as of 31 December 2013, an increase of €26 million, or 53.1%. Amounts for cash and cash equivalents are reflected in the Combined Financial Statements only for those activities of the Group that operated or existed in separate dedicated Group legal entities, during the period of the Combined Financial Statements. For all other activities, changes in cash and cash equivalents balances form part of funding by (distribution to) Royal Philips.

#### Net capital expenditures

Net capital expenditures for the year ended 31 December 2014 were €(123) million, compared to €(178) million for the year ended 31 December 2013, a decrease of €55 million, or (30.9)%, attributable to lower capital expenditures on property, plant and equipment and higher proceeds from disposal of property, plant and equipment, which was partially offset by higher additions of intangible assets. Additions to intangible assets were €(51) million for the year ended 31 December 2014, compared to €(38) million the year ended 31 December 2013, which was primarily due to higher capitalization of software development. Capital expenditure on property plant and equipment for the year ended 31 December 2014 was €(109) million, compared to €(159) million for the year ended 31 December 2013, primarily due to a decrease in purchases of tangible fixed assets due to completion of a BG Professional factory, which contributed €(18) million to purchases of tangible fixed assets for the year ended 31 December 2013. Investments in OLED of €(11) million were also made in the year ended 31 December 2013. Proceeds from the disposal of property, plant and equipment for the year ended 31 December 2014 were €37 million, compared to €19 million for the year ended 31 December 2013, primarily due to the disposal of non-core assets in BG Professional and Other.

#### Free cash flow (unaudited)

Free cash flow for the year ended 31 December 2014 was €355 million, compared to €84 million for the year ended 31 December 2013, an increase of €271 million. The increase was primarily attributable to an increase in net working capital of only €(33) million for the year ended 31 December 2014 compared to an increase in working capital of €(231) million for the year ended 31 December 2013, as described above.



## Balance sheet

The following table presents primary components of the Group's balance sheet as of each of the dates indicated.

<i>In € millions</i>	As of 31 March (unaudited)	As of 31 December		
	2016	2015	2014	2013
Total non-current assets . . . . .	3,714	3,659	3,606	3,333
Total current assets . . . . .	3,222	2,784	2,726	2,497
<b>Total assets . . . . .</b>	<b>6,936</b>	<b>6,443</b>	<b>6,332</b>	<b>5,830</b>
<b>Business equity . . . . .</b>	<b>3,121</b>	<b>3,616</b>	<b>3,583</b>	<b>3,299</b>
Total non-current liabilities . . . . .	1,054	637	810	631
Total current liabilities . . . . .	2,761	2,190	1,939	1,900
<b>Total liabilities . . . . .</b>	<b>3,815</b>	<b>2,827</b>	<b>2,749</b>	<b>2,531</b>
<b>Total liabilities and business equity . . . . .</b>	<b>6,936</b>	<b>6,443</b>	<b>6,332</b>	<b>5,830</b>

### *Comparison of financial position as of 31 March 2016 and 31 December 2015*

The Group's total assets as of 31 March 2016 were €6,936 million, compared to €6,443 million as of 31 December 2015, an increase of €493 million, or 7.7%. The increase included €140 million in currency translation differences mainly explained by the weakening of the U.S. dollar in relation to the euro as of 31 March 2016 compared to 31 December 2015. Excluding currency movements, the total assets of the Group increased by €633 million, which was primarily attributable to higher cash and cash equivalents, higher deferred tax assets and short-term loans receivable from Royal Philips.

The Group's total liabilities as of 31 March 2016 were €3,815 million, compared to €2,827 million as of 31 December 2015, an increase of €988 million, or 34.9%. The increase included €53 million in currency translation differences primarily attributable to the weakening of the U.S. dollar in relation to the euro as of 31 March 2016. Excluding currency movements, the increase in the Group's liabilities of €1,041 million was primarily attributable to an increase in net pension liabilities of €544 million and higher short-term loans payable to Royal Philips of €645 million.

### *Comparison of financial position as of 31 December 2015 and 31 December 2014*

The Group's total assets as of 31 December 2015 were €6,443 million, compared to €6,332 million as of 31 December 2014, an increase of €111 million, or 1.8%. The increase included €327 million in currency translation differences mainly explained by the strengthening of the U.S. dollar in relation to the euro as of 31 December 2015 compared to 31 December 2014. Excluding currency movements, the total assets of the Group decreased by €216 million, which was primarily attributable to amortization of intangible assets excluding goodwill as well as a decrease in property plant and equipment from depreciation and asset sales.

The Group's total liabilities as of 31 December 2015 were €2,827 million, compared to €2,749 million as of 31 December 2014, an increase of €78 million, or 2.8%. The increase included €54 million in currency translation differences primarily attributable to the strengthening of the U.S. dollar in relation to the euro as of 31 December 2015. Excluding currency movements, the increase in the Group's liabilities of €24 million was primarily attributable to higher payables to Royal Philips.

### *Comparison of financial position as of 31 December 2014 and 31 December 2013*

The Group's total assets as of 31 December 2014 were €6,332 million, compared to €5,830 million as of 31 December 2013, an increase of €502 million, or 8.6%. The increase included €441 million in currency translation differences mainly explained by the strengthening of the U.S. dollar in relation to the euro as of 31 December 2014 compared to 31 December 2013. Total assets were also impacted by the acquisition of a 51% interest in GLC, which resulted in consolidation of assets of €424 million, including €109 million of receivables and €216 million of intangible assets, in each case as of 31 December 2014. Excluding currency movements and the acquisition of an interest in GLC, the total assets of the Group decreased by €363 million, which was primarily attributable to amortization of intangible assets excluding goodwill as well as a decrease in property plant and equipment from depreciation and asset sales.

The Group's total liabilities as of 31 December 2014 were €2,749 million, compared to €2,531 million as of 31 December 2013, an increase of €218 million, or 8.6%. The increase included €114 million in currency translation differences and the consolidation of €192 million in liabilities related to the acquisition of GLC. Excluding currency movements and the acquisition of an interest in GLC, the decrease in the Group's liabilities was primarily attributable to a decrease in accounts payable and partly offset by an increase in long-term provisions, mainly in restructuring.



## Capital Expenditures

The Group does not have any material commitments for capital expenditures.

The Group's net capital expenditures for the three month period ended 31 March 2016 were €(18) million. The Group had additions to intangible assets of €(4) million relating primarily to capitalization of development costs and purchases of intellectual property. The Group had capital expenditures on property, plant and equipment of €(16) million relating primarily to machinery and installations in existing factories. The Group had proceeds from disposal of property, plant and equipment of €2 million relating primarily to sale of a commercial building, as well as disposals related to manufacturing footprint rationalization.

The Group's net capital expenditures for the year ended 31 December 2015 were €(85) million. The Group had additions to intangible assets of €(38) million relating primarily to capitalization of development costs and purchases of intellectual property. The Group had capital expenditures on property, plant and equipment of €(98) million relating primarily to machinery and installations in existing factories. The Group had proceeds from disposal of property, plant and equipment of €51 million relating primarily to sale of a commercial building for €22 million, as well as several disposals related to manufacturing footprint rationalization.

The Group's net capital expenditures for the year ended 31 December 2014 were €(123) million. The Group had additions to intangible assets of €(51) million relating primarily to capitalization of development and IT costs. The Group had capital expenditures on property, plant and equipment of €(109) million relating primarily to machinery and installations in existing factories. The Group had proceeds from disposal of property, plant and equipment of €37 million related primarily to the disposal of non-core assets in BG Professional and Other.

The Group's net capital expenditures for the year ended 31 December 2013 were €(178) million. The Group had additions to intangible assets of €(38) million relating primarily to capitalization of development costs. The Group had capital expenditures on property, plant and equipment of €(159) million relating primarily to machinery and installations in existing factories, as well as €(18) million for construction of a BG Professional factory and €(11) million of investments in OLED. The Group had proceeds from disposal of property, plant and equipment of €19 million related primarily to disposals related to manufacturing footprint rationalization.

## Financing Structure Following the Offering

The Group expects that, following completion of the Offering, capital expenditures, working capital requirements and acquisitions will be financed through cash flows from operating activities, cash and cash equivalents on balance sheet following draw down of its new five-year approximately €1,200 million equivalent Term Loan Facility and the application of proceeds thereof, and its new five-year €500 million equivalent Revolving Credit Facility. On 12 May 2016, the Company entered into a credit agreement (the "**Credit Agreement**") with a syndicate of financial institutions as the original lenders and ING Bank N.V. as facility agent which established the Term Loan Facility and the Revolving Credit Facility.

Pursuant to the Credit Agreement, the lenders have agreed to make available to the Company (i) a Term Loan Facility comprising (a) a euro term loan facility of €740 million and (b) a U.S. dollar term loan facility of \$500 million; and (ii) a Revolving Credit Facility in a maximum amount of €500 million, which may be drawn in euros, U.S. dollars, British pounds and, with the consent of the lenders, other currencies. The Revolving Credit Facility incorporates both euro and U.S. dollar swingline facilities (*i.e.*, short term loans).

The Term Loan Facility will be drawn by the Company to refinance outstanding financial indebtedness and transaction costs. On or prior to the Settlement Date, the Group expects to draw down approximately \$500 million and approximately €740 million under the Term Loan Facility, for an aggregate of approximately €1,200 million equivalent drawn under the Term Loan Facility in U.S. dollars and euros. See "Capitalization and Indebtedness" for more information on the effect of drawdown of the Term Loan Facility. The Group does not expect to drawdown any amounts under the Revolving Credit Facility immediately.

The Revolving Credit Facility may be drawn by the Company and may be applied towards working capital and the general corporate purposes of the Group. The facilities will be 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.

Both the Term Loan Facility and the Revolving Credit Facility have a term of five years from the date of the Credit Agreement. The loans under the Term Loan Facility will be repaid at the end of the term and may also be repaid without penalty at the option of the Company during the term, but if so repaid may not be redrawn. The loans under the Revolving Credit Facility are due and payable at the end of their respective interest periods, unless rolled-over to the end of the following interest period (which, subject to certain conditions, will be automatic), and may be re-borrowed thereafter until one month prior to the expiry of the term. The terms of the

Credit Agreement also permit the Company to cancel without penalty the undrawn portion of either the Term Loan Facility or the Revolving Credit Facility.

Mandatory prepayments are required to be made under the Credit Agreement if it becomes illegal for a lender to maintain its participation or upon the occurrence of a change of control. A “change of control” occurs if any person or group of persons acting in concert (other than (i) Stichting Continuïteit Philips Lighting or (ii) the Selling Shareholder or any person controlled by the Selling Shareholder) gains control of the Company or holds (directly or indirectly ) more than 50% of the issued share capital of the Company or any person purchases all or substantially all of the assets of the Company and its subsidiaries as a whole. “Control” for these purposes means the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to direct the management and policies of an entity. A mandatory prepayment is also required with respect to the Term Loan Facility if any amounts have been drawn but the Offering has failed to complete.

Loans will bear interest at a variable rate based on the relevant applicable EURIBOR or LIBOR plus a margin which will initially be 0.75% for the Term Loan Facility and 0.45% for the Revolving Credit Facility. In relation to any interest period commencing at least six months following the closing date under the Credit Agreement and no event of default is outstanding, the margin will vary based on the ratio of consolidated total net debt (equal to total indebtedness less cash and certain defined instruments equivalent to cash) to consolidated EBITDA (based on a calculation methodology described in the Credit Agreement which differs from that described elsewhere in this prospectus) (the “**Net Leverage Ratio**”) on the most recent financial covenant test date as follows:

<b>Net Leverage Ratio</b>	<b>Margin on Term Loan Facility (% per annum)</b>	<b>Margin on Revolving Credit Facility (% per annum)</b>
≥1.75x .....	0.85	0.55
<1.75x but ≥1.25x .....	0.75	0.45
<1.25x but ≥0.50x .....	0.65	0.35
<0.50x .....	0.55	0.25

The rate of interest on the euro swingline component of the Revolving Credit Facility will be the aggregate of the applicable margin for the Revolving Credit Facility and EONIA (Euro Overnight Index Average). The rate of interest on the U.S. dollar swingline component of the Revolving Credit Facility will be the higher of (a) the U.S. prime rate and (b) the federal funds rate plus 0.5%.

The commitment fee for the Revolving Credit Facility is 35% of the applicable margin (*i.e.*, 0.35 times the then applicable margin on the Revolving Credit Facility set forth in the table above), payable as a fee on undrawn commitments for the period from and including the closing date under the Credit Agreement to and including the last day of the Revolving Credit Facility’s availability period. A utilization fee is also payable at a rate of 0.10% per annum on all amounts drawn under the Revolving Credit Facility (including under the swingline facility and any ancillary facility) for each day on which such amounts are more than zero but less than or equal to 33% of the total commitments under the Revolving Credit Facility, 0.15% per annum for each day on which such drawn amounts are more than 33% but less than or equal to 66% of the total commitments under the Revolving Credit Facility and 0.30% for each day on which such drawn amounts exceed 66% of the total commitments under the Revolving Credit Facility.

The Credit Agreement contains customary representations and warranties to be given at signing and, in some cases, at each drawdown and on the first day of each interest period. The representations include, among others, status, validity and admissibility in evidence and no violation of laws or other obligations.

The Credit Agreement contains customary undertakings. The undertakings include, among others, a negative pledge that provides that (subject to certain exceptions) no member of the group may grant security over its assets without the consent of the lenders, and a restriction on subsidiaries of the Company (other than the obligors) incurring additional financial indebtedness. There are also restrictions (subject to certain exceptions and thresholds) on engaging in acquisitions, disposals and reorganizations. The Credit Agreement also includes a financial covenant providing that the Group must maintain a Net Leverage Ratio in respect of any test period ending on or after 31 December 2016 of not greater than 3.00:1.00.

The Credit Agreement includes customary rights for the lenders to terminate the Term Loan Facility and the Revolving Credit Facility early and accelerate any amounts outstanding following an event of default. In particular, these rights exist if amounts payable under the Term Loan Facility and the Revolving Credit Facility are not made when due, obligations under the Term Loan Facility and the Revolving Credit Facility (including the financial covenant and other undertakings) are not complied with, an obligor or material subsidiary becomes insolvent or defaults on other financial liabilities or the representations and warranties are inaccurate (in each case subject to customary thresholds and exceptions).

The Group is expected to be included in the Royal Philips funding program, which includes certain cash pooling arrangements, until the third quarter of 2016. The Group's participation in the Royal Philips funding program is expected to be replaced in the third quarter of 2016 by a funding program operated by Philips Lighting Holding B.V., a subsidiary of the Group, that will provide cash pooling arrangements, clearing and settlement of intra-group and external payables and receivables and financing and liquidity investment opportunities to participating members of the Group.

### Off-Balance-Sheet Arrangements and Contingent Liabilities

The following table presents the contractual cash obligations of the Group as of 31 December 2015. Off-balance sheet commitments of the Group relate to purchase obligations and operating lease obligations.

<i>In € millions</i>	Payments due by period <sup>(1)</sup>				
	Total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt <sup>(2)</sup> .....	47	45	—	—	2
Short-term debt .....	41	41	—	—	—
Operating lease obligations .....	284	79	82	57	66
Derivative liabilities .....	7	7	—	—	—
Interest on debt .....	2	2	—	—	—
Purchase obligations .....	56	26	20	7	3
Trade payables .....	940	940	—	—	—
<b>Contractual cash obligations</b> .....	<b>1,377</b>	<b>1,140</b>	<b>102</b>	<b>64</b>	<b>71</b>

(1) Obligations are not discounted.

(2) Long-term debt includes short-term portion of debt and excludes finance lease obligations.

The operating lease obligations are mainly related to rental of buildings. A number of these leases originate from sale-and-leaseback arrangements. As of 31 December 2015, the Group did not have any finance lease obligations. See Note E.24 to the Combined Financial Statements for more information.

The Group does not have any material commitments for capital expenditures.

The Group's policy is to provide guarantees and other letters of support only in writing. The Group does not stand by other forms of support. The Group had no guarantees recognized on the balance sheet as of 31 December 2015, 2014 or 2013. Off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates as of 31 December 2015 amounted to €8 million, compared to €9 million as of 31 December 2014 and €11 million as of 31 December 2013.

The Group is subject to environmental laws and regulations. Under these laws and regulations, the Group may be required to remediate the effects of the release or disposal of certain chemicals on the environment.

The Group is involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as commercial transactions, product liability, participations and environmental pollution. In respect of labor related litigation, the Group is involved in several proceedings relating to former employees. These proceedings consist of individual claims in various jurisdictions and a collective claim before a federal public prosecutor in South America. These claims are assessed on a case-by-case basis and are in various phases of litigation. Please also refer to "Business—Legal Proceedings" and Note E.26 to the Combined Financial Statements. Since the ultimate disposition of asserted claims and proceedings and investigations cannot be predicted with certainty, an adverse outcome could have a material adverse effect on the Group's financial position, results of operations and cash flows.

### Financial Risk Management

The Group is exposed to several types of financial risks, including liquidity risk, currency risk, commodity price risk, credit risk and country risk. Please see Note E.30 to the Combined Financial Statements for a discussion of the liquidity risk, currency risk, commodity price risk, credit risk and country risk faced by the Group.

In relation to liquidity risk, the Group expects that, following completion of the Offering, capital expenditures, working capital requirements and acquisitions will be financed through cash flows from operating activities, cash and cash equivalents on balance sheet following draw down of its new five-year approximately €1,200 million equivalent Term Loan Facility and the application of proceeds thereof, and its new five-year €500 million equivalent Revolving Credit Facility. The Group's participation in the Royal Philips funding program is expected to be replaced in the third quarter of 2016 by a funding program operated by Philips Lighting Holding B.V., a subsidiary of the Group, that will provide cash pooling arrangements, clearing and

settlement of intra-group and external payables and receivables and financing and liquidity investment opportunities to participating members of the Group. The liabilities owed by the Group to Royal Philips will be repaid shortly prior to or following the Settlement Date financed by borrowings under the Term Loan Facility, see “—Financing Structure Following the Offering”.

### **Critical Accounting Estimates**

The preparation of the Combined Financial Statements in conformity with IFRS requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, income and expenses and assumptions that affect amounts reported in the Combined Financial Statements. These estimates inherently contain a degree of uncertainty. Actual results may differ from these estimates.

These estimates and judgements are evaluated by the Group on an on-going basis and are based on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that are considered reasonable under the circumstances. The results of these estimates form the basis for making judgements about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. The Group revises material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

The areas which relate to the most significant judgements and estimates of the Group are listed below.

#### ***Goodwill and other intangible assets***

The Group has recognized significant balances of goodwill, customer relationships, brand names and technology as intangible assets. Furthermore, expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development.

#### ***Impairment of goodwill and intangible assets not yet ready for use***

Further judgement is applied when analyzing impairments of goodwill and intangible assets not ready for use. Goodwill, intangible assets not yet ready for use are not amortized but tested for impairment annually and whenever impairment indicators require impairment testing. The Group performed and completed annual impairment tests in the same quarter of all years presented in the income statement included in the Combined Financial Statements. An impairment loss is recognized in the Combined Financial Statements whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and fair value less costs to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset.

#### ***Impairment of non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets***

Non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is recognized and measured by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent that there has been a change in estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the income statement in the Combined Financial Statements.

#### ***Deferred tax asset recoverability and other tax liabilities***

The evaluation of the recoverability of deferred tax assets requires judgement about the future taxable profitability of the legal entity holding the tax loss carry forward. A lack of future taxable profits or taxable profits below the level of current estimates, may cause deferred tax assets to be impaired.

Other tax liabilities include liabilities for uncertain tax positions which are recognized when it is probable that additional tax will be due. Actual tax assessments in relation to these other tax liabilities may significantly deviate from estimates.

In determining the amount of current and deferred income tax, the Group takes into account the impact of other tax liabilities and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

#### ***Revenue recognition***

Commercial agreements may contain multiple elements. The separate accounting for each of these elements based on its fair value requires judgement.

#### ***Useful lives of intangible and tangible assets***

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Patents and trademarks with a finite useful life acquired from third parties either separately or as part of a business combination are capitalized at cost and amortized over their remaining useful lives. Amortization of capitalized development expenditure is charged to the income statement in the Combined Financial Statements on a straight-line basis over the estimated useful lives of the intangible assets.

#### ***Inventory valuation and obsolescence provision***

Due to price erosion and technological developments, inventory valuation requires forward looking estimates on future sales levels, future price erosion and related expected gross margin percentages. On each reporting date, the Group performs an analysis of net realizable values and determines the lower of cost and net realizable value to measure its inventories.

#### ***Estimation of allowances for doubtful accounts***

The Group determines the present value of estimated future cash flows through the use of allowances for doubtful accounts based on an individual or collective assessment of the collectability of trade and other receivables. Allowances for doubtful accounts are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debtors requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and doubtful debt expense in the period in which such estimate is changed.

#### ***Provisions***

In order to recognize a provision, it is necessary to reliably estimate the present obligation. Further judgement is required to determine the likelihood of an outflow of economic benefits.

#### ***Fair value of derivatives and other financial instruments***

The Group manages their exposure on foreign currency purchases and sales using forward foreign exchange contracts, which are reported at fair value. The fair value of the forward foreign exchange contracts has been determined using discounted cash flow calculations using directly observable market inputs (level 2).

#### ***Contingent liabilities***

The Group had certain guarantees, environmental remediation and legal proceedings at the reporting dates. Significant judgement is required in determining whether it is probable that an outflow of resources will be required to settle, in which case an accrual for the potential settlement is recognized.

#### ***Basis of allocation***

The nature of the Combined Financial Statements requires management of the Group to make estimates of a reasonable assignment or allocation for assets, liabilities and costs shared with other businesses of Royal Philips. These allocations were performed in a manner deemed reasonable by management of the Group and are explained in Note C to the Combined Financial Statements. Different allocation methods could have resulted in different outcomes.

The basis of allocation is therefore not necessarily representative of the assets, liabilities or costs that would have been reported if the Group operated on its own or as an entity independent from Royal Philips during the periods presented, nor is it indicative of the assets, liabilities or costs that may arise in the future.

#### **Changes in Accounting Policies and Disclosures**

For a summary of changes in accounting policies and disclosures, please see Note D.26 to the Combined Financial Statements.



## **Non-IFRS Financial Measures**

Certain parts of this Prospectus contain financial measures that are not measures of financial performance or liquidity under IFRS. These are commonly referred to as non-IFRS financial measures and include such items as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, EBITDA, adjusted EBITDA and free cash flow, and other related ratios.

Although the non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, the Group uses these measures to monitor the underlying performance of its business and operations. These measures have not been audited or reviewed by the Company's accountants. Further, these measures may not be indicative of the Group's historical operating results, nor are such measures meant to be predictive of the Group's future results. These measures are presented in this Prospectus because the Group considers them an important supplemental measure of its performance and believes that these and similar measures are widely used in the industry in which the Group operates as a means of evaluating a company's operating performance and liquidity.

However, not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis. As a result, these measures and ratios may not be comparable to measures used by other companies under the same or similar names or captions. Accordingly, undue reliance should not be placed on the non-IFRS financial measures contained in this Prospectus. These measures should not be considered as a substitute for operating profit, profit for the year, cash flow or other financial measures computed in accordance with IFRS.

The presentation of the non-IFRS financial measures in this Prospectus should not be construed as an implication that the Group's future results will be unaffected by exceptional or non-recurring items.

### ***Adjusting items***

The Group presents certain non-IFRS financial measures, including adjusted gross margin, adjusted EBITA and adjusted EBITDA, and related ratios, giving effect to adjustments for restructuring costs, acquisition-related charges and other incidental charges. The Group discloses adjustments for restructuring costs, acquisition-related charges and other incidental charges in order to provide these supplemental non-IFRS financial measures, as the Group believes these supplemental non-IFRS financial measures are meaningful to evaluate the Group's financial performance on a comparable basis over time by factoring out restructuring costs, acquisition-related charges and other incidental charges which are not directly related to the operational performance the Group. These supplemental non-IFRS financial measures are used by the Group as key financial measures to assess the operating performance of the Group and, in the case of adjusted EBITDA and adjusted EBITA ratio, the performance of the Business Groups. These supplemental non-IFRS financial measures may be subject to limitations as an analytical tool for investors, as they exclude restructuring costs, acquisition-related charges and other incidental charges and therefore do not reflect the expense associated with such items, which may be significant and have a significant effect on the Group's income from operations.

In the Combined Financial Statements, costs which the Group discloses as restructuring costs, acquisition-related charges and other incidental charges are included in the line items cost of sales, selling expenses, R&D expenses or general and administrative expenses, depending on the nature of the restructuring costs, acquisition-related charges or other incidental charges.

### ***Restructuring costs***

The Group defines restructuring costs as 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. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure or discontinuance are included in restructuring provisions. A liability is recognized for those costs only when the Group has a detailed formal plan for the restructuring and has raised a valid expectation with those affected that it will carry out the restructuring by beginning to implement that plan or announcing its main features to those affected by it. Before a provision is established, the Group recognizes any impairment loss on the assets associated with the restructuring.

### ***Acquisition-related charges***

The Group defines acquisition-related charges as significant costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses.

### ***Other incidental charges***

The Group defines other incidental charges as any item (also called event) with an income statement impact (loss or gain) that is deemed to be both significant and not part of normal business activity. Other incidental charges may extend over several quarters within the same financial year.

### ***Comparable sales growth (unaudited)***

The Group defines comparable sales growth as the period-on-period growth in sales excluding the effects of currency movements and changes in consolidation.

#### *Effects of currency movements*

The Group presents the Combined Financial Statements and Condensed Combined Interim Financial Statements in euros. However, a significant proportion of the Group's sales and income are generated in other functional currencies. The Group's sales and income are translated from foreign currencies into the Company's reporting currency, the euro, at the exchange rate on the respective transaction dates during the respective periods. As a result of significant currency movements during the periods presented, the effects of translating foreign currency sales amounts into euro could have a material impact, and converting figures from various currencies into euro affects the comparability of the Group's results of operations and financial position between the reporting periods when the exchange rates for these currencies fluctuate. Therefore, the effects of currency movements have been excluded in arriving at comparable sales in euro. The effects of currency movements have been calculated by translating previous periods' foreign currency sales amounts into euro at the following periods' exchange rates in comparison with the sales in euro as historically reported.

#### *Effects of changes in consolidation*

In addition, the effects of changes in consolidation as a result of acquisitions or divestments on the Group's sales affect the comparability of the periods presented in the Combined Financial Statements and Condensed Combined Interim Financial Statements. The years under review were characterized by a number of acquisitions and divestments, as a result of which certain entities were consolidated or de-consolidated. The effect of consolidation changes has also been excluded in arriving at the comparable sales. The effects of changes in consolidation are calculated for purposes of calculating the comparable sales growth percentage. The effects of changes in consolidation, in the event a previously consolidated business is sold or contributed to a venture that is not consolidated by the Group, are calculated by excluding relevant sales from impacted prior periods. The effects of changes in consolidation (*e.g.*, in the event a business is acquired) are calculated by excluding relevant sales from impacted prior periods. Changes in consolidation during a period have pro rata effects in the periods following the change in consolidation, as the effect of change in consolidation impacts during the year of consolidation or de-consolidation only those reporting months during which the newly consolidated business was already consolidated by the Group or the de-consolidated business was no longer consolidated by the Group, respectively. Thus, in the following period, there is an effect of change in consolidation on the remaining months during which the newly consolidated business was not yet consolidated by the Group or the de-consolidated business was still consolidated by the Group, respectively.

#### *Reconciliation of comparable sales growth*

The Group discloses comparable sales growth as a supplemental non-IFRS financial measure, as the Group believes that the presentation of comparable sales growth is a meaningful measure for investors to evaluate the performance of the Group's business activities over time. The Group determines comparable sales growth by deducting the percentage figures for changes from the nominal change of sales. Interaction effects between currency movements and changes in consolidation (second order effects) are not taken into account. The Group presents comparable sales growth on both a Business Group and Market Group basis. Comparable sales growth is also used by the Group as key financial measures to assess the operating performance of the Business Groups and Market Groups.

Comparable sales growth may be subject to limitations as an analytical tool for investors, as comparable sales growth figures are not adjusted for other effects, such as increases or decreases in prices or quantity/volume. In addition, interaction effects between currency movements and changes in consolidation (second order effects) are not taken into account.

The following table sets forth the reconciliation of sales to comparable sales growth by Business Group for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions, except percentages</i>	<b>BG Lamps</b>	<b>BG LED</b>	<b>BG Professional</b>	<b>BG Home</b>	<b>Other</b>	<b>Total</b>
<b><i>For the three month period ended 31 March 2016 (unaudited)</i></b>						
<b>Sales for the three month period ended</b>						
<b>31 March 2015</b> .....	<b>727</b>	<b>275</b>	<b>610</b>	<b>112</b>	<b>3</b>	<b>1,727</b>
Effects of currency movements .....	(9)	(1)	1	—	—	(9)
Effects of changes in consolidation .....	—	—	—	—	—	—
<b>Comparable sales for the three month period ended 31 March 2015</b> .....						
	<b>718</b>	<b>274</b>	<b>611</b>	<b>112</b>	<b>3</b>	<b>1,718</b>
Comparable sales growth .....	(104)	79	(13)	12	4	(22)
<b>Comparable sales for the three month period ended 31 March 2016</b> .....						
	<b>614</b>	<b>353</b>	<b>598</b>	<b>124</b>	<b>7</b>	<b>1,696</b>
Effects of changes in consolidation .....	—	—	—	—	—	—
Effects of currency movements .....	1	2	3	—	—	6
<b>Sales for the three month period ended</b>						
<b>31 March 2016</b> .....	<b>615</b>	<b>355</b>	<b>601</b>	<b>124</b>	<b>7</b>	<b>1,702</b>
Comparable sales growth (%) .....	(14.5)%	28.8%	(2.1)%	10.7%	133.3%	(1.3)%
<b><i>For the year ended 31 December 2015</i></b>						
<b>Sales for the year ended 31 December 2014</b> .....						
	<b>3,119</b>	<b>958</b>	<b>2,420</b>	<b>482</b>	<b>2</b>	<b>6,981</b>
Effects of currency movements .....	275	90	202	35	—	602
Effects of changes in consolidation .....	(4)	2	(31)	—	—	(33)
<b>Comparable sales for the year ended</b>						
<b>31 December 2014</b> .....	<b>3,390</b>	<b>1,050</b>	<b>2,591</b>	<b>517</b>	<b>2</b>	<b>7,550</b>
Comparable sales growth .....	(539)	284	(18)	(2)	7	(268)
<b>Comparable sales for the year ended</b>						
<b>31 December 2015</b> .....	<b>2,851</b>	<b>1,334</b>	<b>2,573</b>	<b>515</b>	<b>9</b>	<b>7,282</b>
Effects of changes in consolidation .....	—	—	186	—	—	186
Effects of currency movements .....	(1)	—	(2)	—	—	(3)
<b><i>For the year ended 31 December 2014</i></b>						
<b>Sales for the year ended 31 December 2015</b> .....						
	<b>2,850</b>	<b>1,334</b>	<b>2,757</b>	<b>515</b>	<b>9</b>	<b>7,465</b>
Comparable sales growth (%) .....	(15.9)%	27.0%	(0.7)%	(0.4)%	350.0%	(3.5)%
<b>Sales for the year ended 31 December 2013</b> .....						
	<b>3,557</b>	<b>772</b>	<b>2,308</b>	<b>490</b>	<b>2</b>	<b>7,129</b>
Effects of currency movements .....	(111)	(15)	(40)	(7)	—	(173)
Effects of changes in consolidation .....	(1)	—	(12)	(1)	—	(14)
<b>Comparable sales for the year ended</b>						
<b>31 December 2013</b> .....	<b>3,445</b>	<b>757</b>	<b>2,256</b>	<b>482</b>	<b>2</b>	<b>6,942</b>
Comparable sales growth .....	(326)	199	74	(2)	—	(55)
<b>Comparable sales for the year ended</b>						
<b>31 December 2014</b> .....	<b>3,119</b>	<b>956</b>	<b>2,330</b>	<b>480</b>	<b>2</b>	<b>6,887</b>
Effects of changes in consolidation .....	—	—	86	2	—	88
Effects of currency movements .....	—	2	4	—	—	6
<b>Sales for the year ended 31 December 2014</b> .....						
	<b>3,119</b>	<b>958</b>	<b>2,420</b>	<b>482</b>	<b>2</b>	<b>6,981</b>
Comparable sales growth (%) .....	(9.5)%	26.3%	3.3%	(0.4)%	—	(0.8)%

The following table sets forth the reconciliation of sales to comparable sales growth by Market Group for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions, except percentages</i>	<u>Europe</u>	<u>Americas</u>	<u>Growth Markets</u>	<u>Greater China</u>	<u>Global Businesses</u>	<u>Total</u>
<b>For the three month period ended 31 March 2016 (unaudited)</b>						
<b>Sales for the three month period ended</b>						
31 March 2015 .....	<u>561</u>	<u>538</u>	<u>369</u>	<u>138</u>	<u>121</u>	<u>1,727</u>
Effects of currency movements .....	2	—	(14)	2	1	(9)
Effects of changes in consolidation .....	(4)	—	3	(1)	2	—
<b>Comparable sales for the three month period ended 31 March 2015 .....</b>						
	<u>559</u>	<u>538</u>	<u>358</u>	<u>139</u>	<u>124</u>	<u>1,718</u>
Comparable sales growth .....	(24)	15	(12)	(4)	3	(22)
<b>Comparable sales for the three month period ended 31 March 2016 .....</b>						
	<u>535</u>	<u>553</u>	<u>346</u>	<u>135</u>	<u>127</u>	<u>1,696</u>
Effects of changes in consolidation .....	1	—	(1)	—	—	—
Effects of currency movements .....	(3)	2	5	1	1	6
<b>Sales for the three month period ended</b>						
31 March 2016 .....	<u>533</u>	<u>555</u>	<u>350</u>	<u>136</u>	<u>128</u>	<u>1,702</u>
Comparable sales growth (%) .....	(4.3)%	2.8%	(3.4)%	(2.9)%	2.4%	(1.3)%
<b>For the year ended 31 December 2015</b>						
<b>Sales for the year ended 31 December 2014 .....</b>						
	<u>2,311</u>	<u>2,156</u>	<u>1,450</u>	<u>624</u>	<u>440</u>	<u>6,981</u>
Effects of currency movements .....	31	317	117	102	35	602
Effects of changes in consolidation .....	(4)	(25)	6	—	(10)	(33)
<b>Comparable sales for the year ended</b>						
31 December 2014 .....	<u>2,338</u>	<u>2,448</u>	<u>1,573</u>	<u>726</u>	<u>465</u>	<u>7,550</u>
Comparable sales growth .....	(51)	(68)	(33)	(142)	26	(268)
<b>Comparable sales for the year ended</b>						
31 December 2015 .....	<u>2,287</u>	<u>2,380</u>	<u>1,540</u>	<u>584</u>	<u>491</u>	<u>7,282</u>
Effects of changes in consolidation .....	4	—	179	—	3	186
Effects of currency movements .....	(1)	—	(2)	(2)	2	(3)
<b>Sales for the year ended 31 December 2015 .....</b>						
	<u>2,290</u>	<u>2,380</u>	<u>1,717</u>	<u>582</u>	<u>496</u>	<u>7,465</u>
Comparable sales growth (%) .....	(2.2)%	(2.8)%	(2.1)%	(19.6)%	5.6%	(3.5)%
<b>For the year ended 31 December 2014</b>						
<b>Sales for the year ended 31 December 2013 .....</b>						
	<u>2,297</u>	<u>2,223</u>	<u>1,469</u>	<u>692</u>	<u>448</u>	<u>7,129</u>
Effects of currency movements .....	4	(73)	(95)	(7)	(2)	(173)
Effects of changes in consolidation .....	(4)	—	14	—	(24)	(14)
<b>Comparable sales for the year ended</b>						
31 December 2013 .....	<u>2,297</u>	<u>2,150</u>	<u>1,388</u>	<u>685</u>	<u>422</u>	<u>6,942</u>
Comparable sales growth .....	9	9	(16)	(60)	3	(55)
<b>Comparable sales for the year ended</b>						
31 December 2014 .....	<u>2,306</u>	<u>2,159</u>	<u>1,372</u>	<u>625</u>	<u>425</u>	<u>6,887</u>
Effects of changes in consolidation .....	4	(5)	76	—	13	88
Effects of currency movements .....	1	2	2	(1)	2	6
<b>Sales for the year ended 31 December 2014 .....</b>						
	<u>2,311</u>	<u>2,156</u>	<u>1,450</u>	<u>624</u>	<u>440</u>	<u>6,981</u>
Comparable sales growth (%) .....	0.4%	0.4%	(1.2)%	(8.8)%	0.7%	(0.8)%
<b>Adjusted gross margin ratio (unaudited)</b>						

The Group defines adjusted gross margin ratio as gross margin, excluding restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, divided by sales.

The Group discloses adjusted gross margin ratio as a supplemental non-IFRS financial measure, as the Group believes it is a meaningful measure to evaluate the Group's gross margin on a comparable basis over time

without the effects of variations in sales and by factoring out restructuring costs, acquisition-related charges and other incidental charges which are not directly related to the operational performance the Group. Adjusted gross margin ratio is also used by the Group as key financial measures to assess the operating performance of the Group. Adjusted gross margin ratio may be subject to limitations as an analytical tool for investors, as it excludes restructuring costs, acquisition-related charges and other incidental charges and therefore does not reflect the expense associated with such items, which may be significant and have a significant effect on the Group's income from operations.

The following table sets forth the reconciliation of adjusted gross margin ratio to sale and gross margin for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions</i>	<b>For the three month period ended 31 March (unaudited)</b>		<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>Sales</b> .....	<b>1,702</b>	<b>1,727</b>	<b>7,465</b>	<b>6,981</b>
Cost of sales .....	(1,075)	(1,106)	(4,810)	(4,671)	(4,573)
<b>Gross margin</b> .....	<b>627</b>	<b>621</b>	<b>2,655</b>	<b>2,310</b>	<b>2,556</b>
Restructuring costs .....	(13)	(15)	(62)	(192)	(39)
Acquisition-related charges .....	—	—	—	(11)	(1)
Other incidental charges .....	—	—	(14)	(63)	3
<b>Adjusted gross margin</b> .....	<b>640</b>	<b>636</b>	<b>2,731</b>	<b>2,576</b>	<b>2,593</b>
<b>Adjusted gross margin ratio (%)</b> .....	<b>37.6%</b>	<b>36.8%</b>	<b>36.6%</b>	<b>36.9%</b>	<b>36.4%</b>

***EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio (unaudited)***

The Group defines EBITA as income from operations excluding amortization related to acquisition-related intangible assets. The Group defines adjusted EBITA as EBITA excluding restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, selling expenses, R&D expenses and general and administrative expenses. The Group defines adjusted EBITA ratio as adjusted EBITA divided by sales (or sales including intersegment in the case of adjusted EBITA ratio of Business Groups). The Group defines EBITDA as income from operations excluding depreciation, amortization and impairments of non-financial assets. See Note E.7 to the Combined Financial Statements for more information. The Group defines adjusted EBITDA as EBITDA excluding restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, selling expenses, R&D expenses and general and administrative expenses. The Group defines adjusted EBITDA ratio as adjusted EBITDA divided by sales.

The Group discloses EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio as supplemental non-IFRS financial measures, as the Group believes they are meaningful measures to evaluate the performance of the Group's business activities over time. The Group understands that these measures are used by analysts, rating agencies and investors in assessing the Group's performance. The Group presents EBITA, adjusted EBITA and adjusted EBITA ratio on a Business Group basis. The Group also believes that the presentation of EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA and adjusted EBITDA ratio provide useful information to investors on the development of the Group's business and, in the case of EBITA, adjusted EBITA, adjusted EBITA ratio and EBITDA, enhances the ability of investors to compare profitability across the Business Groups. In the case of EBITA, the Group believes that EBITA makes the underlying performance of its businesses more transparent by factoring out the amortization related to acquisition-related intangible assets, which arises when acquisitions are consolidated by the Group. In the case of adjusted EBITA and adjusted EBITA ratio, the Group believes that adjusted EBITA and adjusted EBITA ratio make the underlying performance of its businesses more transparent by factoring out restructuring costs, acquisition-related charges and other incidental charges which are not directly related to the operational performance of a Business Group. EBITA, adjusted EBITA and adjusted EBITA ratio are also used by the Group as key financial measures to assess the operating performance of the Business Groups. In the case of EBITDA, adjusted EBITDA and adjusted EBITDA ratio, the Group believes that presentation of these measures makes the underlying cash generating ability of the Business Groups more transparent by adjusting income from operations for non-cash items.

EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA and adjusted EBITDA may be subject to limitations as an analytical tool for investors, as EBITA, adjusted EBITA, adjusted EBITA ratio and EBITDA exclude items such as depreciation, amortization and impairment and do not reflect the expense associated with such items, and accordingly do not reflect the full economic effect of the loss in value of the Group's assets over



time. Similarly, none of EBITA, adjusted EBITA, adjusted EBITA ratio, EBITDA, adjusted EBITDA or adjusted EBITDA ratio reflects the impact of the Group's financial income, financial expense, tax expense or results relating to investments in associates.

The following table sets forth the reconciliation of income from operations to EBITA, adjusted EBITA and adjusted EBITA ratio for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions</i>	<u>BG Lamps</u>	<u>BG LED</u>	<u>BG Professional</u>	<u>BG Home</u>	<u>Other</u>	<u>Total</u>
<b>For the three month period ended 31 March 2016</b>						
<i>(unaudited)</i>						
<b>Income from operations</b> .....	<b>113</b>	<b>19</b>	<b>(25)</b>	<b>(15)</b>	<b>(21)</b>	<b>71</b>
Amortization related to acquisition-related intangible assets .....	(1)	(1)	(26)	(1)	—	(29)
<b>EBITA</b> .....	<b>114</b>	<b>20</b>	<b>1</b>	<b>(14)</b>	<b>(21)</b>	<b>100</b>
Restructuring costs .....	(11)	—	(4)	(2)	(1)	(18)
Acquisition-related charges .....	—	—	(1)	—	—	(1)
Other incidental charges .....	—	—	—	—	(2)	(2)
<b>Adjusted EBITA</b> .....	<b>125</b>	<b>20</b>	<b>6</b>	<b>(12)</b>	<b>(18)</b>	<b>121</b>
Sales including intersegment .....	623	386	609	124	(40) <sup>(1)</sup>	1,702
<b>Adjusted EBITA ratio (%)</b> .....	<b>20.1%</b>	<b>5.2%</b>	<b>1.0%</b>	<b>(9.7)%</b>	<b>—</b>	<b>7.1%</b>
(1) Amount includes intersegment sales elimination.						
<b>For the three month period ended 31 March 2015</b>						
<i>(unaudited)</i>						
<b>Income from operations</b> .....	<b>106</b>	<b>2</b>	<b>(19)</b>	<b>(19)</b>	<b>(15)</b>	<b>55</b>
Amortization related to acquisition-related intangible assets .....	—	(1)	(24)	(1)	—	(26)
<b>EBITA</b> .....	<b>106</b>	<b>3</b>	<b>5</b>	<b>(18)</b>	<b>(15)</b>	<b>81</b>
Restructuring costs .....	(17)	(2)	(6)	(4)	1	(28)
Acquisition-related charges .....	—	—	(1)	—	—	(1)
Other incidental charges .....	—	—	—	—	—	0
<b>Adjusted EBITA</b> .....	<b>123</b>	<b>5</b>	<b>12</b>	<b>(14)</b>	<b>(16)</b>	<b>110</b>
Sales including intersegment .....	741	295	614	113	(36) <sup>(1)</sup>	1,727
<b>Adjusted EBITA ratio (%)</b> .....	<b>16.6%</b>	<b>1.7%</b>	<b>2.0%</b>	<b>(12.4)%</b>	<b>—</b>	<b>6.4%</b>
(1) Amount includes intersegment sales elimination.						
<b>For the year ended 31 December 2015</b>						
<b>Income from operations</b> .....	<b>403</b>	<b>66</b>	<b>14</b>	<b>(73)</b>	<b>(79)</b>	<b>331</b>
Amortization related to acquisition-related intangible assets .....	(2)	(4)	(100)	(1)	—	(107)
<b>EBITA</b> .....	<b>405</b>	<b>70</b>	<b>114</b>	<b>(72)</b>	<b>(79)</b>	<b>438</b>
Restructuring costs .....	(52)	(2)	(26)	(14)	4	(90)
Acquisition-related charges .....	—	—	(5)	—	—	(5)
Other incidental charges <sup>(1)</sup> .....	(6)	(2)	(5)	(1)	—	(14)
<b>Adjusted EBITA</b> .....	<b>463</b>	<b>74</b>	<b>150</b>	<b>(57)</b>	<b>(83)</b>	<b>547</b>
Sales including intersegment .....	2,899	1,427	2,775	519	(155) <sup>(2)</sup>	7,465
<b>Adjusted EBITA ratio (%)</b> .....	<b>16.0%</b>	<b>5.2%</b>	<b>5.4%</b>	<b>(11.0)%</b>	<b>—</b>	<b>7.3%</b>

(1) Related to intercompany losses of €(14) million across the Business Groups due to foreign exchange rate fluctuations in Argentina.

(2) Amount includes intersegment sales elimination.

**For the year ended 31 December 2014**

<b>Income from operations</b> .....	<b>356</b>	<b>(62)</b>	<b>(56)</b>	<b>(70)</b>	<b>(127)</b>	<b>41</b>
Amortization related to acquisition-related intangible assets .....	(2)	(3)	(101)	(2)	—	(108)
<b>EBITA</b> .....	<b>358</b>	<b>(59)</b>	<b>45</b>	<b>(68)</b>	<b>(127)</b>	<b>149</b>
Restructuring costs .....	(154)	(5)	(41)	(22)	(39)	(261)
Acquisition-related charges .....	—	—	(20)	—	—	(20)
Other incidental charges <sup>(1)</sup> .....	6	(68)	4	—	12	(46)
<b>Adjusted EBITA</b> .....	<b>506</b>	<b>14</b>	<b>102</b>	<b>(46)</b>	<b>(100)</b>	<b>476</b>
Sales including intersegment .....	3,181	1,025	2,433	485	(143) <sup>(2)</sup>	6,981
<b>Adjusted EBITA ratio (%)</b> .....	<b>15.9%</b>	<b>1.4%</b>	<b>4.2%</b>	<b>(9.5)%</b>	<b>—</b>	<b>6.8%</b>

(1) Related to pension past service cost gains of €22 million across the Group for the year ended 31 December 2014 and impairment of OLED of €(68) million in BG LED. Pension past service cost gains relate to lower defined-benefit obligations of Royal Philips in the Netherlands as a result of mandatory plan changes, for which gains were allocated to the Group in respect of its relevant employees in the Netherlands.

(2) Amount includes intersegment sales elimination.

**For the year ended 31 December 2013**

<b>Income from operations</b> .....	<b>586</b>	<b>(20)</b>	<b>(75)</b>	<b>(152)</b>	<b>(126)</b>	<b>213</b>
Amortization related to acquisition-related intangible assets <sup>(1)</sup> .....	(1)	(4)	(100)	(62)	—	(167)
<b>EBITA</b> .....	<b>587</b>	<b>(16)</b>	<b>25</b>	<b>(90)</b>	<b>(126)</b>	<b>380</b>
Restructuring costs .....	(21)	—	(22)	(33)	(3)	(79)
Acquisition-related charges .....	—	—	(6)	—	—	(6)
Other incidental charges <sup>(2)</sup> .....	7	1	2	—	2	12
<b>Adjusted EBITA</b> .....	<b>601</b>	<b>(17)</b>	<b>51</b>	<b>(57)</b>	<b>(125)</b>	<b>453</b>
Sales including intersegment .....	3,658	828	2,337	492	(186) <sup>(3)</sup>	7,129
<b>Adjusted EBITA ratio (%)</b> .....	<b>16.4%</b>	<b>(2.1)%</b>	<b>2.2%</b>	<b>(11.6)%</b>	<b>—</b>	<b>6.4%</b>

(1) Includes €(32) million impairment of customer relationships in BG Home and €(26) million impairment of goodwill in BG Home.

(2) Related to pension past service cost gains of €12 million across the Group for the year ended 31 December 2013. Pension past service cost gains relate to lower defined-benefit obligations of Royal Philips in the United States as a result of freeze of accruals, for which gains were allocated to the Group in respect of its relevant employees in the United States.

(3) Amount includes intersegment sales elimination.

The following table sets forth the reconciliation of income from operations to EBITDA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions</i>	<u>BG Lamps</u>	<u>BG LED</u>	<u>BG Professional</u>	<u>BG Home</u>	<u>Other</u>	<u>Total</u>
<b><i>For the three month period ended 31 March 2016</i></b>						
<b><i>(unaudited)</i></b>						
<b>Income from operations</b> .....	<b>113</b>	<b>19</b>	<b>(25)</b>	<b>(15)</b>	<b>(21)</b>	<b>71</b>
Depreciation, amortization & impairments of non-financial assets .....	(23)	(5)	(38)	(3)	(9)	(78)
<b>EBITDA</b> .....	<b>136</b>	<b>24</b>	<b>13</b>	<b>(12)</b>	<b>(12)</b>	<b>149</b>
<b><i>For the three month period ended 31 March 2015</i></b>						
<b><i>(unaudited)</i></b>						
<b>Income from operations</b> .....	<b>106</b>	<b>2</b>	<b>(19)</b>	<b>(19)</b>	<b>(15)</b>	<b>55</b>
Depreciation, amortization & impairments of non-financial assets .....	(20)	(4)	(36)	(3)	(10)	(73)
<b>EBITDA</b> .....	<b>126</b>	<b>6</b>	<b>17</b>	<b>(16)</b>	<b>(5)</b>	<b>128</b>
<b><i>For the year ended 31 December 2015</i></b>						
<b>Income from operations</b> .....	<b>403</b>	<b>66</b>	<b>14</b>	<b>(73)</b>	<b>(79)</b>	<b>331</b>
Depreciation, amortization & impairments of non-financial assets .....	(89)	(20)	(155)	(14)	(37)	(315)
<b>EBITDA</b> .....	<b>492</b>	<b>86</b>	<b>169</b>	<b>(59)</b>	<b>(42)</b>	<b>646</b>
<b><i>For the year ended 31 December 2014</i></b>						
<b>Income from operations</b> .....	<b>356</b>	<b>(62)</b>	<b>(56)</b>	<b>(70)</b>	<b>(127)</b>	<b>41</b>
Depreciation, amortization & impairments of non-financial assets .....	(118)	(73)	(149)	(10)	(31)	(381)
<b>EBITDA</b> .....	<b>474</b>	<b>11</b>	<b>93</b>	<b>(60)</b>	<b>(96)</b>	<b>422</b>
<b><i>For the year ended 31 December 2013</i></b>						
<b>Income from operations</b> .....	<b>586</b>	<b>(20)</b>	<b>(75)</b>	<b>(152)</b>	<b>(126)</b>	<b>213</b>
Depreciation, amortization & impairments of non-financial assets .....	(104)	(19)	(155)	(78)	(34)	(390)
<b>EBITDA</b> .....	<b>690</b>	<b>(1)</b>	<b>80</b>	<b>(74)</b>	<b>(92)</b>	<b>603</b>

The following table sets forth the reconciliation of EBITDA to adjusted EBITDA and adjusted EBITDA ratio for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions</i>	<b>For the three month period ended 31 March</b>		<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>EBITDA</b> .....	<b>149</b>	<b>128</b>	<b>646</b>	<b>422</b>	<b>603</b>
Restructuring costs <sup>(1)</sup> .....	(9)	(26)	(74)	(225)	(61)
Acquisition-related charges .....	(1)	(1)	(5)	(20)	(6)
Other incidental charges <sup>(1)</sup> .....	(2)	—	(14)	2	11
<b>Adjusted EBITDA</b> .....	<b>161</b>	<b>155</b>	<b>739</b>	<b>665</b>	<b>659</b>
Sales .....	1,702	1,727	7,465	6,981	7,129
<b>Adjusted EBITDA ratio (%)</b> .....	<b>9.5%</b>	<b>9.0%</b>	<b>9.9%</b>	<b>9.5%</b>	<b>9.2%</b>

(1) Excludes restructuring costs and other incidental charges already deducted as depreciation, amortization and impairments of non-financial assets.

### Net capital expenditures

The Group defines net capital expenditures as additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment.

The Group discloses net capital expenditures by Business Group as a supplemental non-IFRS financial measure, as the Group believes it is a meaningful measure to evaluate the performance of the Group's business activities over time. The Group believes presentation of net capital expenditures provides useful information to investors regarding the amount of capital expenditures each Business Group has made excluding purchases of businesses. The Group also uses net capital expenditures to calculate free cash flow, as described below.

Net capital expenditures may be subject to limitations as an analytical tool for investors as net capital expenditures represents a limited subset of the Group's overall investment expenditures and does not include purchases of businesses, which may be significant.

The following table sets forth the reconciliation of net capital expenditures for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions</i>	<u>BG Lamps</u>	<u>BG LED</u>	<u>BG Professional</u>	<u>BG Home</u>	<u>Other</u>	<u>Total</u>
<b><i>For the three month period ended 31 March 2016</i></b>						
<b><i>(unaudited)</i></b>						
Additions of intangible assets . . . . .	—	(1)	(2)	—	(1)	(4)
Capital expenditures on property, plant and equipment . . . . .	<u>(4)</u>	<u>(2)</u>	<u>(6)</u>	<u>(1)</u>	<u>(3)</u>	<u>(16)</u>
<b>Gross capital expenditures . . . . .</b>	<b><u>(4)</u></b>	<b><u>(3)</u></b>	<b><u>(8)</u></b>	<b><u>(1)</u></b>	<b><u>(4)</u></b>	<b><u>(20)</u></b>
Proceeds from disposal of property, plant and equipment . . . . .	<u>1</u>	—	—	—	<u>1</u>	<u>2</u>
<b>Net capital expenditures . . . . .</b>	<b><u>(3)</u></b>	<b><u>(3)</u></b>	<b><u>(8)</u></b>	<b><u>(1)</u></b>	<b><u>(3)</u></b>	<b><u>(18)</u></b>
<b><i>For the three month period ended 31 March 2015</i></b>						
<b><i>(unaudited)</i></b>						
Additions of intangible assets . . . . .	—	(4)	(3)	(1)	—	(8)
Capital expenditures on property, plant and equipment . . . . .	<u>(7)</u>	<u>(2)</u>	<u>(5)</u>	<u>(6)</u>	—	<u>(20)</u>
<b>Gross capital expenditures . . . . .</b>	<b><u>(7)</u></b>	<b><u>(6)</u></b>	<b><u>(8)</u></b>	<b><u>(7)</u></b>	<b>—</b>	<b><u>(28)</u></b>
Proceeds from disposal of property, plant and equipment . . . . .	—	—	—	—	—	—
<b>Net capital expenditures . . . . .</b>	<b><u>(7)</u></b>	<b><u>(6)</u></b>	<b><u>(8)</u></b>	<b><u>(7)</u></b>	<b>—</b>	<b><u>(28)</u></b>
<b><i>For the year ended 31 December 2015</i></b>						
Additions of intangible assets . . . . .	(1)	(9)	(24)	(3)	(1)	(38)
Capital expenditures on property, plant and equipment . . . . .	<u>(32)</u>	<u>(16)</u>	<u>(29)</u>	<u>(11)</u>	<u>(10)</u>	<u>(98)</u>
<b>Gross capital expenditures . . . . .</b>	<b><u>(33)</u></b>	<b><u>(25)</u></b>	<b><u>(53)</u></b>	<b><u>(14)</u></b>	<b><u>(11)</u></b>	<b><u>(136)</u></b>
Proceeds from disposal of property, plant and equipment . . . . .	<u>14</u>	—	(3)	<u>11</u>	<u>29</u>	<u>51</u>
<b>Net capital expenditures . . . . .</b>	<b><u>(19)</u></b>	<b><u>(25)</u></b>	<b><u>(56)</u></b>	<b><u>(3)</u></b>	<b><u>18</u></b>	<b><u>(85)</u></b>
<b><i>For the year ended 31 December 2014</i></b>						
Additions of intangible assets . . . . .	4	(15)	(10)	(3)	(27)	(51)
Capital expenditures on property, plant and equipment . . . . .	<u>(38)</u>	<u>(12)</u>	<u>(30)</u>	<u>(6)</u>	<u>(23)</u>	<u>(109)</u>
<b>Gross capital expenditures . . . . .</b>	<b><u>(34)</u></b>	<b><u>(27)</u></b>	<b><u>(40)</u></b>	<b><u>(9)</u></b>	<b><u>(50)</u></b>	<b><u>(160)</u></b>
Proceeds from disposal of property, plant and equipment . . . . .	<u>1</u>	—	<u>14</u>	—	<u>22</u>	<u>37</u>
<b>Net capital expenditures . . . . .</b>	<b><u>(33)</u></b>	<b><u>(27)</u></b>	<b><u>(26)</u></b>	<b><u>(9)</u></b>	<b><u>(28)</u></b>	<b><u>(123)</u></b>
<b><i>For the year ended 31 December 2013</i></b>						
Additions of intangible assets . . . . .	(4)	(14)	(12)	(3)	(5)	(38)
Capital expenditures on property, plant and equipment . . . . .	<u>(46)</u>	<u>(15)</u>	<u>(52)</u>	<u>(4)</u>	<u>(42)</u>	<u>(159)</u>
<b>Gross capital expenditures . . . . .</b>	<b><u>(50)</u></b>	<b><u>(29)</u></b>	<b><u>(64)</u></b>	<b><u>(7)</u></b>	<b><u>(47)</u></b>	<b><u>(197)</u></b>
Proceeds from disposal of property, plant and equipment . . . . .	<u>5</u>	—	<u>7</u>	<u>1</u>	<u>6</u>	<u>19</u>
<b>Net capital expenditures . . . . .</b>	<b><u>(45)</u></b>	<b><u>(29)</u></b>	<b><u>(57)</u></b>	<b><u>(6)</u></b>	<b><u>(41)</u></b>	<b><u>(178)</u></b>

### **Free cash flow (unaudited)**

The Group defines free cash flow as net cash provided by operations minus net capital expenditures. Free cash flow as calculated by the Group includes interest paid and income taxes paid. For more information on interest paid and income taxes paid for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013, see the Condensed Combined Interim Financial Statements and the Combined Financial Statements, respectively.

The Group discloses free cash flow as a supplemental non-IFRS financial measure, as the Group believes it is a meaningful measure to evaluate the performance of the Group's business activities over time. The Group understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing the Group's performance. The Group also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the Group's operations after deducting cash outflows for additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the Group's business. In addition, because free cash flow is not impacted by purchases of businesses, it is less volatile than the total of net cash provided by / (used in) operating activities and net cash provided by / (used in) investing activities. Free cash flow is also used by the Group as a key financial measure to assess the operating performance of the Group.

Free cash flow may be subject to limitations as an analytical tool for investors, as free cash flow is not a measure of cash generated by operations available exclusively for discretionary expenditures and the Group requires funds in addition to those required for capital expenditures for a wide variety of non-discretionary expenditures, such as payments on outstanding debt, dividend payments or other operating expenditures. In addition, free cash flow does not reflect cash payments that may be required in future periods in relation to restructuring costs already incurred.

The following table sets forth the reconciliation of net cash provided by operations to free cash flow for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<i>In € millions</i>	<b>For the three month period ended 31 March (unaudited)</b>		<b>For the year ended 31 December</b>		
	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net cash provided by operating activities</b> .....	<b>(60)</b>	<b>184</b>	<b>717</b>	<b>478</b>	<b>262</b>
Net capital expenditures .....	(18)	(28)	(85)	(123)	(178)
<b>Free cash flow</b> .....	<b>(78)</b>	<b>156</b>	<b>632</b>	<b>355</b>	<b>84</b>



## INDUSTRY AND COMPETITION

### Sources of Information Presented in this Section

The information presented in this section is taken or derived from a number of third party sources where indicated. Unless indicated otherwise, figures (including future estimates) included in this section referring to the lighting market have been sourced from the BCG Report, which is publicly available through its website, and have been converted to euros. The market value as defined by the BCG is based on average manufacturer's sales price and does not include inflation. The BCG projections assume a constant 2014 exchange rate of € 1.00 = USD 1.3269 through 2020. In addition, certain other statements below are based on the Group's own proprietary information, opinions or estimates and not on any third-party or independent source; these statements contain words such as "the Group believes", "the Group expects", "the Group estimates", "the Group sees", "the Group perceives" and as such do not purport to cite, refer to or summarize any third-party or independent source and should not be read as such. See "Important Information—Market and Industry Information".

### Overview of Lighting Products and Technologies

The Group has a long history in the development and production of lighting technologies and light sources. Currently, its product portfolio includes the following established and emerging technologies.

#### *Conventional lamps*

Conventional lamps are all non-LED based light emitting light sources, including incandescent lamps, halogen lamps, fluorescent lamps and HID lamps.

An incandescent lamp is a conventional lamp that produces visible light by heating a tungsten filament inside a glass bulb usually filled with an inert gas. The bulb prevents the hot filament from oxidation. Energy efficiency is relatively low as most of the energy released by the lamp is in the form of heat rather than light. The lifespan of an incandescent lamp typically ranges from approximately 1,400 hours up to 2,000 hours.<sup>9</sup> Standard incandescent lamps have been banned in most developed countries including the United States and countries in Europe, whilst China and Brazil are in the process of phasing out incandescent lamps with higher wattages.

A halogen lamp is a type of incandescent lamp with a capsule that holds a special halogen gas composition around the heated filament to increase the efficacy of the incandescence. Halogen lamps are more energy efficient than standard incandescent bulbs but also more costly. The lifespan of halogen lamps typically ranges from approximately 1,200 hours up to 4,100 hours.<sup>10</sup> The European Commission has passed regulations phasing out most halogen lamp types by 2018 and the United States and China are expected to soon follow.

A fluorescent lamp produces light with an electric current conducted through an inert gas producing ultraviolet light that is invisible to the human eye. The ultraviolet light in turn interacts with special blends of phosphor coating on the interior surface of the fluorescent lamp tube that efficiently converts the invisible light into visible white light. These lamps require electronics to regulate the electricity current. Fluorescent lamps can be either linear or compact:

- Linear fluorescent light ("LFL"): LFLs are longitudinal or circular gas-discharge lamps, often called tubular linear ("TL") lamps. They are popular for commercial and industrial buildings, and are usually identified as T12, T8 or T5 based on their diameter. The lifespan of LFLs typically ranges from approximately 12,000 hours up to 30,000 hours.<sup>11</sup> LFLs are more energy efficient than incandescent lamps and have a color rendering close to daylight, making them particularly suited to illumination of large indoor areas.
- Compact fluorescent light ("CFL"): CFLs usually combine a fluorescent light with an incandescent fixture. There are two types of CFLs, the integrated CFLs ("CFLi"), which have the driver integrated in the lamp and are mainly being used in home applications, and the non-integrated CFLs ("CFLni" or "CFLn"), without an integrated driver, which are mainly used in office and hospitality applications. The lifespan of CFLs typically ranges from approximately 10,000 hours up to 12,000 hours.<sup>12</sup> CFLs are more energy efficient and have a longer lifespan than incandescent lamps, however they require a warm-up period before achieving full brightness, and contain a small amount of mercury.

HID lamps use electricity arcs between two electrodes to create an intensely bright light where mercury, sodium, or metal halide gas act as the conductor. The lifespan of HID lamps typically ranges from approximately 12,000 hours up to 25,000 hours.<sup>13</sup> HID lamps have the advantage of providing high lumen lighting in a small

<sup>9</sup> Source: U.S. Department of Energy ("DoE"), Energy Savings Potential of SSL, August 2014, pages 41-44.

<sup>10</sup> Source: DoE, Energy Savings Potential of SSL, August 2014, pages 41-44.

<sup>11</sup> Source: DoE, Energy Savings Potential of SSL, August 2014, pages 41-44.

<sup>12</sup> Source: DoE, Energy Savings Potential of SSL, August 2014, pages 41-44.

<sup>13</sup> Source: DoE, Energy Savings Potential of SSL, August 2014, pages 41-44.

size light bulb, and with less energy cost than incandescent lamps. However, HID lamps require warm-up time to achieve full brightness. HID lamps are mainly used in professional applications, such as road, street and stadium lighting or retail illumination.

### **LED lamps**

An LED lamp is a solid-state semiconductor device that converts electrical energy directly into light. The actual light source of an LED lamp is often very small and integrated optical components may be used to shape its radiation pattern. LED lamps are designed to fit in conventional sockets (*e.g.*, screw sockets), which can be part of a conventional luminaire. According to a 2014 DoE study, the lifespan of an LED lamp typically ranges from approximately 40,000 hours to 50,000 hours.<sup>14</sup> However, in 2016 the DoE and the U.S. Environmental Protection Agency lowered LED lamps lifespan requirements to 15,000 to 25,000 hours, depending on the type of lamp.<sup>15</sup> In the experience of the Group, the lifespan of most LED lamps for consumer usage typically ranges from 10,000 to 25,000 hours depending on consumer usage preferences, and from 15,000 to 50,000 hours for professional usage depending on the specific application. LED lamps are the most energy efficient lamps available, have the longest lifespan and create less heat than conventional lamps during use, but the initial purchase price is higher than conventional lamps and they are currently not suited for all applications as a result of technological limitations (*e.g.*, small size, high lumen applications).

LED lamps are typically divided into three categories: LED bulbs, LED spots and tubular LED lamps. The shape of LED bulbs allows them to emit uniform light in all directions and they can be placed in luminaires with traditional screw sockets. LED spots produce a focused beam of light and are often used to replace halogen spots. Tubular LED lamps can replace conventional TL lamps and can offer a more efficient distribution of light.

### **Luminaires**

The term luminaires refers to electrical devices that produce, control and distribute light. Luminaires are also called light fixtures. Luminaires consist of one or more light sources, lamps or sockets that connect the lamps to the electrical power (as well as drivers in some luminaires), and the mechanical components required to support or attach the housing. Luminaires are designed to provide proper and efficient light distribution for a particular application. Such applications include consumer luminaires (including decorative (*e.g.*, wall and ceiling luminaires, table luminaires) or functional (*e.g.*, spots, outdoor luminaires, desk lights)) and professional luminaires used for professional applications such as in offices or commercial buildings, shops, the hospitality sector, warehouses, factories and outdoor (*e.g.*, street lighting, highways and tunnels, parking lots, sports venues and monuments).

Conventional luminaires are light fixtures with a conventional socket for a conventional lamp or LED lamp. Conventional lamps in conventional luminaires can be replaced by an LED retrofit lamp.

LED luminaires are light fixtures where LED modules are integrated into the luminaire as light source and cannot be separated from the luminaire by the user. LED luminaires therefore do not need a separate lamp.

### **Electronics**

Electronics are units that regulate the current going through a light source. There are two types of electronics: drivers (which can be further divided into lamp drivers and LED drivers) and LED modules.

Lamp drivers are lighting electronics which are needed to operate gas discharge lamps (fluorescent lamps and HID lamps) and low voltage halogen lamps. Lamp drivers are also known as “transformers”, “ballasts”, “gears” or “control gears”, depending on country, type and application. A lamp driver can drive one or more lamps and is normally invisible for the end-user in a lighting fixture. A lamp driver changes input voltage, current, and frequency from the grid, into a combination of these suitable to power different lamp types. To start a gas discharge lamp, an initial high voltage “ignition” peak needs to be provided by the lamp driver. After igniting the lamp, a steady state operation mode takes over. There are two major types of lamp drivers: magnetic drivers and electronic drivers. Magnetic drivers are based on different sets of copper or aluminum windings, and are combined with an ignitor and capacitor. Magnetic drivers are particularly cost effective in higher wattages applications (> 250W). Electronic drivers alter the flow of electricity in the lamp by using a series of induction coils. Electronic drivers, in comparison to magnetic drivers, are in general more energy efficient, provide “flicker-free” lamp operation, can have special sophisticated functions to improve lamp life and lamp performance during lifespan, have several safety related protections built-in and provide stable lamp operation even with large input voltage fluctuations.

<sup>14</sup> Source: DoE, Energy Savings Potential of SSL, August 2014, page 50.

<sup>15</sup> Source: DoE and U.S. Environmental Protection Agency, Energy STAR Program Requirements for Lamps—Eligibility Criteria Version 2.0 (Rev. February 2016).

LED drivers are lighting electronics that convert input power into a current which remains constant despite fluctuations in voltage. An LED driver protects LEDs from normal voltage fluctuations, over-voltages, and voltage spikes. LED drivers may also offer advanced features like various control inputs, programmable functions (dimming schedules, lumen maintenance correction), multi-channel outputs, visual light communications, energy metering, and self-diagnostics.

LED modules are light generating units around which LED luminaires are built for the purpose of emitting distributed patterns of light. Such units typically comprise one or more packaged LEDs mounted on a printed circuit board. These modules may also contain additional features such as mechanical mounting, primary optics/diffusers, thermal management, power conversion electronics, connectivity interfaces, and/or sensing inputs.

### ***Lighting systems***

Lighting systems are the combination of luminaires, controls and software. They refer to the automation and related controls of lighting within a room, building or outdoor facilities for end-users defined as professional (professional systems) or as consumer (home systems). Lighting systems can be (i) local/stand alone, with basic control of the luminaires (*e.g.*, on/off, dimming), (ii) networked, with advanced control of the luminaires (*e.g.*, rules-based scheduling), or (iii) connected. Connected lighting systems combine intelligent illumination (illumination with the use of software, controls and sensors) with data and connectivity, enabling two-way data communication. Lighting systems provide customers with enhanced ability to personalize lighting, remote monitoring and control, improved energy efficiency and operational cost reduction via the combination of energy efficient light sources and digital controls.

### ***Lighting services***

Lighting services refer to services offered to customers building on a lighting system and enabled by data. Services can be categorized in three categories including (i) professional services, (ii) lifecycle services, and (iii) managed services. Professional services include services such as design, auditing a customer's lighting installation or consulting services on potential improvements of lighting efficiency. Lifecycle services relate to the maintenance or asset management (including spare part management or small retrofits), extended warranty and data services that enable additional functionality of an existing lighting installation. Managed services cover the full management of a lighting installation through a performance-based contract. Examples of such managed services include energy performance contracts or so-called "Light-as-a-Service" contracts. "Light-as-a-Service" contracts are contracts enabling an integrated solution for customers where customers pay for the provision of light to their premises, while the Group plans and builds the lighting infrastructure and ensures its performances until the end of the contract. These contracts reduce the customer's capital expenditures for lighting equipment by outsourcing the management and maintenance of the lighting infrastructure.

## **Lighting Market**

### ***Global lighting market***

The global lighting market as defined in the BCG Report is composed of three major segments:

- *General lighting*: This segment comprises the following four categories: (i) lamps (which include both point and linear lamps), (ii) electronics, (iii) professional (which includes professional luminaires, systems and services for professional end-customers including offices, retail, industry, governments), and (iv) consumer (which includes consumer luminaires and lighting systems for consumer use in the home);
- *Automotive lighting*: This segment comprises of all elements of lighting systems in cars including electronics, luminaires and lamps; and
- *Backlighting*: This segment is made up of the lighting used in devices such as TVs, smartphones and tablets.

The Group's activities fall within the general lighting segment. The Group is no longer active in the automotive and backlighting segments after the separation of Royal Philips' combined LED and automotive lighting components businesses into a stand-alone company in 2015.

Globally, North America and Europe represent the largest markets in size, representing approximately 45% of the global lighting market by revenue in 2014. However, rapidly developing economies such as China and countries in Latin America have been key drivers of growth, accounting for approximately 70% of the global lighting market growth from 2010 through 2014. The estimated sales of the global lighting market are expected to grow from €84.2 billion in 2014 to €100.3 billion in 2020, representing a compound annual growth rate ("CAGR") of approximately 3% over this period, in line with its historical growth rate of approximately 3% over the 2010 to 2014 period. Although overall growth is expected to be in line with historical trends, the dynamics within the global lighting market are expected to shift significantly because of the transition towards LED lighting and the adoption of connected lighting systems.

## **General lighting market**

The Group's activities fall within the general lighting segment. The estimated sales of the general lighting market were €65.6 billion in 2014, and annual sales are forecasted to grow at a CAGR of approximately 3% up to 2020, reaching approximately €79.8 billion by 2020. The Group believes that the increase in LED luminaires sales will be the key driver of the continuing growth of the general lighting market.

The estimated total market profit of the general lighting market, as measured by earnings before interest and taxes, is expected to grow at a CAGR of 3% to 4% per year from €3.7 billion in 2014 to €4.5 billion by 2020. This growth is expected to be driven by the increase in market size (most notably in LED luminaires) as margins are expected to remain broadly constant for the broader general lighting market. However, margins are expected to decrease for the lamps category, where the transition to LED lamps is expected to negatively impact profitability in the lamps category in the near term. On the other hand, margins for professional luminaires, systems and services, and consumer luminaires and systems are expected to increase on the back of the transition from conventional to LED luminaires which typically have higher margins.

The estimated sales of the general lighting market in Europe are expected to grow from €17.8 billion in 2014 to €19.5 billion in 2020. North America is expected to grow from €12.0 billion in 2014 to €13.1 billion in 2020, South America is expected to grow from €4.7 billion in 2014 to €5.6 billion in 2020, Japan is expected to grow from €5.7 billion in 2014 to €6.2 billion in 2020, Greater China is expected to grow from €9.6 billion in 2014 to €14.2 billion in 2020 and the rest of the world is expected to grow from €15.7 billion in 2014 to €21.3 billion in 2020.

### **Lamps**

The overall volume of the total lamps market, including conventional and LED lamps, is anticipated to decline in the coming years as a result of two underlying trends: (i) reduction in demand for replacement lamps because of the longer lifespan of LED lamps and longer lasting conventional technologies (*e.g.*, CFL) and (ii) the growth in LED luminaires reducing the need for separate light sources. The migration to LED luminaires is expected to reduce the number of sockets requiring a lamp (as LED luminaires do not have a separate lamp but instead have a built-in LED light source) and the remaining sockets requiring a lamp will increasingly be filled with LED lamps. The growth in demand in emerging markets is expected to only partially offset these two trends. The impact of the declining lamp volumes on market value sales is expected to be somewhat limited by the higher prices of LED lamps compared to conventional lamps. As a result, it is expected that the total lamps market (including conventional and LED lamps) will slightly decline at 2% per year up to 2020 in volume. The estimated sales of the total lamps market are €12.9 billion in 2014 and €11.6 billion in 2020. However, the lamps market is characterized by diverging underlying dynamics for conventional lamps (which are expected to decline in volume) and LED lamps (which are expected to increase in volume).

The conventional lamp market size in 2014 was estimated by BCG at approximately €9.8 billion in sales. BCG expects it to decline to approximately €4.2 billion in sales by 2020, representing an annual decline of approximately 13%. The Group, however, expects a more rapid annual decline (a percentage in the low twenties) over the same period because it anticipates faster declines in prices of LED lamps than BCG driving accelerated conversion from conventional lamps to LED lamps.

BCG estimates that by 2020 approximately more than 30% of lamp volumes will have moved from conventional to LED lighting technology. The conventional lamps market is however expected to remain a sizeable market through at least 2020 (approximately €4.2 billion in 2020 according to BCG) for the following reasons (i) conventional lamps remain attractively priced versus LED lamps in many segments, and are an attractive value proposition for low income population categories in developing countries, (ii) limited retrofit LED solutions are available in the foreseeable future for high lumen, small size professional lamps and (iii) a slow rate of refurbishment to LED in selected application areas such as outdoor, where a replacement market for conventional lamps is expected to continue to exist for a long time. Renovation cycles for luminaires are relatively long (on average 12 to 15 years) with possibly 35% to 45% of the installed luminaire base beyond 2030 still requiring replacement lamps (conventional or LED lamps).

The LED lamps market size is currently estimated by BCG at approximately €3.1 billion in sales as of 2014 and is expected to increase to approximately €7.3 billion by 2020, representing a CAGR of approximately 15% over the same period on the back of ongoing volume substitution of conventional lamps by LED lamps. The Group, however, expects that over the same period market growth of a percentage in the low teens per year up to 2020 as a result of its estimate of greater price declines of LED lamps relative to BCG estimates. The Group expects that this, in turn, will accelerate the transition from conventional lamps to LED lamps, while exerting downward pressure on the aggregate value of the LED lamps market due to expected lower prices. The rapid transition to LED lamps is driven by (i) a focus on energy efficiency (see—"Market Trends—Increasing demand



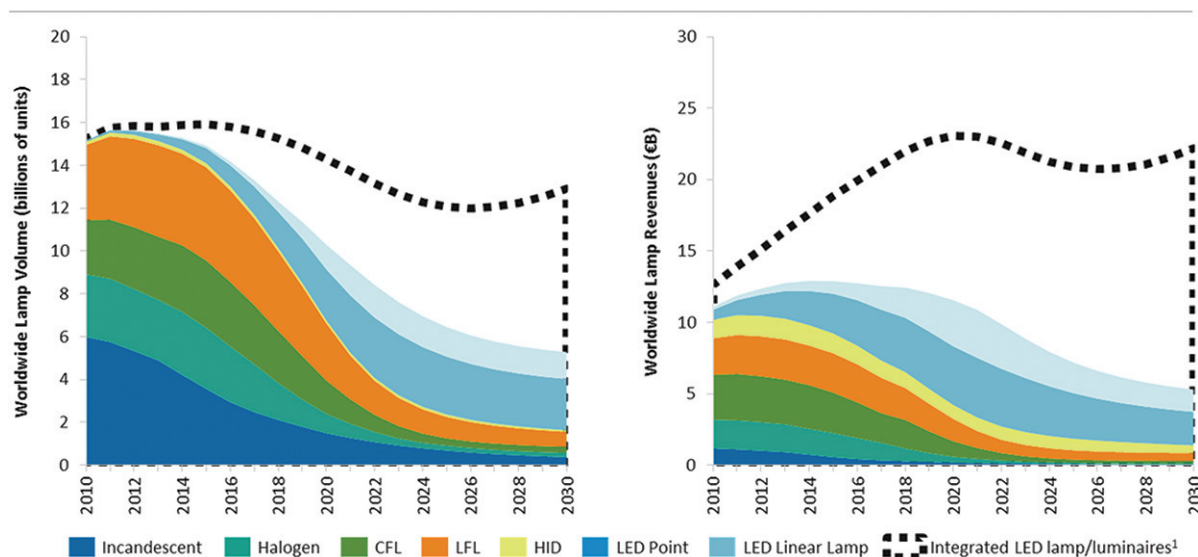
for more efficient light”), (ii) new capabilities and functions, such as the versatility of LED (variety of colors and sizes), and (iii) the continued expected price declines of LED lamps, which are expected to be significantly higher than price declines of LED luminaires, combined with an increasing focus on the total cost of ownership of lighting. The total cost of ownership includes the initial cost of lamps and luminaires, as well as the cost of replacement of the lamps and the energy costs. As LED lamp prices continue to decline, the total cost of ownership calculation is expected to become an even stronger selling point for customers.

Volumes within the LED-lamp segment are expected to grow at an annual rate of more than 30% over the 2014 to 2020 period. It is estimated that after 2023 LED lamp volumes will decline as the market continues to evolve toward a replacement market with a longer replacement cycle and because of increasing use of LED luminaires which do not need replacement lamps. However, the Group expects that the volume decline in the LED-lamp segment will start in 2020. The rate of LED adoption is expected to differ between regions. Japan and China are expected to adopt LED more quickly because of high customer acceptance and stricter regulations, followed by Europe and North America. LED adoption is expected to be somewhat slower in developing economies in Latin America and Africa as lower initial prices of conventional lamps are attractive for customer segments with lower levels of disposable income.

It is expected that overall profit margins for the conventional lamps market will remain relatively stable on the back of anticipated restructuring and other cost reduction programs expected to be undertaken by leading players that are likely to consolidate the market. The total profits, as measured by earnings before interest and taxes, for the LED lamps market are currently estimated to be close to breakeven or negative for some players due to the intense competition and as a result they are expected to remain weak in the coming years. However, within any segment margins can differ significantly per company depending on factors such as the company’s business model, brand and access to distribution channels. The Group is currently profitable in LED lamps and expects to continue to be so.

The share of HID and fluorescent lamps in the conventional lamps market is projected to increase to 23% for HID (2010: 13%) and 63% for fluorescent lamps (2010: 56%) by 2020, whilst the share of halogen and incandescent lamps is projected to reduce to 10% for halogen lamps (2010: 20%) and 4% for incandescent lamps (2010: 11%) by 2020.

### Evolution of Lamps Volume and Revenues by Technology (2010-2030)



Source: Converted graph from BCG Report, p18.

<sup>1</sup>Not considered part of the lamps market as integrated LED lamp/luminaire products compete as a solution with replacement LED lamps used in socket-based luminaires.

Note: These figures are based on current technology efficiency and the assumption of a (slowed) price decline for LED luminaires (electronics) and LED lamps from 2020 through 2030 (for example, the average sales price of an LED lamp point in 2030 is expected to be approximately €0.74), numbers are highly dependent on the price outlook for 2030. CFL = compact fluorescent lamp; HID = high-intensity discharge; LED = light-emitting diode; LFL = linear fluorescent lamp

#### Electronics

BCG expects the electronics market to grow from approximately €6.2 billion in 2014 to approximately €12.0 billion by 2020, implying a CAGR of approximately 12% over the same period. The expansion of the electronics market is driven by the transition towards LED lighting. Among other reasons, while some



conventional lighting technologies do not require a driver, all LED lighting products require a driver so the market for drivers will increase with the transition to LED lighting. The market for drivers is expected to grow by 12% per year from €4.0 billion in 2014 to €7.8 billion in 2020. Modules are also used in LED luminaires and as a result, this segment is expected to grow rapidly on the back of the growth of the LED luminaires market, which is expected to grow by 23% per year from €12.9 billion in 2014 to €45.4 billion in 2020. The modules market is expected to grow by 12% per year from €2.2 billion in 2014 to €4.3 billion in 2020.

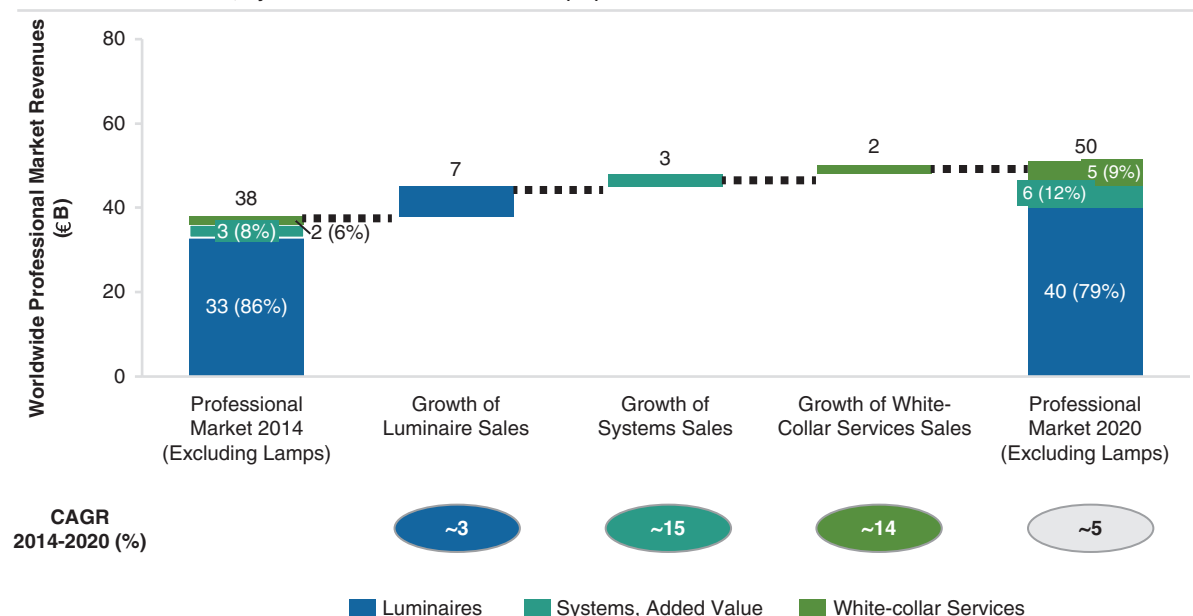
#### Professional luminaires, systems and services

The value of the professional luminaires, systems and services market is expected to grow from €32.5 billion in 2014 to €39.7 billion in 2020, representing a 3% CAGR over the same period. The expected growth in the professional market is primarily driven by the transition to LED and connected lighting (see—“Market Trends—Increasing demand for digital lighting”) where professional customers are rapidly replacing conventional luminaires with LED luminaires. In 2020, approximately 80% of professional luminaires sold in volume terms are expected to be LED luminaires. At the same time, approximately 25% of all luminaires sold in revenue terms are expected to be part of a connected lighting system.

The growth of professional connected lighting systems is expected to create new opportunities in high end, professional services. The greater functionality of LED will drive demand for consulting and design services. In addition, the IT and software components of connected lighting systems increase the demand for systems integrators and create new opportunities for service companies that can harness data from the systems. Lighting market participants are offering customers so-called “Light-as-a-Service” contracts (contracts where customers pay for the provision of light to their premises). As a result, the total market size for systems and services is expected to grow from €5.0 billion in 2014 to €10.6 billion in 2020 measured by sales, representing a 13% CAGR over the same period, with systems and services representing approximately 20% of the total professional market by 2020.

BCG estimates that professional luminaires, systems and services market profit margins will slightly increase from approximately 6.1% in 2014 to approximately 6.4% by 2020. The improvement in margins is expected to be mainly driven by the transition to higher margin LED luminaires and the development of the systems and services market.

Professional Luminaires, Systems and Services Market Size (€B)



Source: Converted graph from BCG Report, p21.

#### Consumer luminaires and systems

The value of the consumer luminaires and home systems market is expected to increase from €14.0 billion in 2014 to €16.6 billion in 2020 measured by sales, representing an approximate 3% CAGR over the same period. Similarly to the professional market, the consumer market is expected to benefit from the transition to LED luminaires with the adoption of LED connected home lighting systems. The connected home lighting systems market (excluding luminaires or lamps) is expected to increase from approximately €0.3 billion in 2014 to approximately €1.0 billion in 2020 measured by sales, representing an approximate 20% CAGR over the same period. Within the consumer market, consumer luminaires, both conventional and LED, will continue to

dominate the market as home systems are a relatively small but fast-growing segment. By 2020, LED luminaires are expected to contribute approximately 60% of the total volume in the consumer luminaires market.

The pace of adoption of home lighting systems is expected to be more moderate than for lighting systems in the professional market. Home systems products are currently priced at a significant premium while providing relatively low energy cost savings. As a result, the home systems market is expected to remain relatively small in the foreseeable future, with buyers mainly limited to affluent, technology-oriented early adopters.

The consumer luminaires and systems market profit pool margins are expected to slightly increase from approximately 3.2% in 2014 to approximately 3.5% by 2020. The moderate improvement in margins is driven by the replacement of conventional luminaires with higher margin LED luminaires and the development of home connected systems on the back of increased digitalization.

## **Market Trends**

### ***General***

The general lighting market is currently undergoing a rapid transformation, mainly driven by three underlying trends: (i) the increasing need for light, (ii) the increasing demand for more energy efficient light, and (iii) the increasing demand for digital lighting. These trends are changing the way people use, experience and interact with light. The integration of LED technology, lighting controls and software allows for new functionalities and services which will enable customers to benefit from new applications. LED technology, when combined with sensors, controls and software and linked into a network, allows light points to achieve a higher degree of intelligence compared to what is possible with conventional lighting technologies.

### ***Increasing need for light***

The growth in the overall demand for light is driven by the following macro trends: (i) the expected increase in the world's population, (ii) the expected increase in urbanization of the world's population and (iii) the expected increase in wealth, especially in emerging markets. The world's population is forecast to grow from approximately 7 billion in 2015 to approximately 10 billion people by 2050.<sup>16</sup> At the same time, the urbanization of the world's population is expected to significantly increase, with approximately 66% of the world's population expected to live in urban areas by 2050 compared to approximately 54% in 2015.<sup>17</sup> Finally, according to the International Monetary Fund ("IMF"), Gross Domestic Product ("GDP") per capita is expected to grow at an approximate CAGR of 5% over the 2014 to 2020 period for the emerging market and developing economies (as defined by the IMF), while a CAGR of 3% is expected for the world. According to BCG, growth of the general lighting market has historically tracked global GDP growth with an approximate 3% CAGR for the 2010 to 2014 period.<sup>18</sup> In developed countries, growth of the general lighting market has mainly been driven by economic expansion and the increase in number of households, while in developing markets growth of the lighting market is supported by growth in population, increasing access to electricity and electric grids, increasing urbanization and wealth. Fast-growing developing economies such as China and Latin America represented approximately 70% of general lighting market growth over the last five years.

### ***Increasing demand for more efficient light***

The increasing global demand for light in the context of resource constraints and climate change has created a need for increased energy efficiency of lighting products. The Group believes lighting represents a significant portion of global electricity consumption<sup>19</sup> and the lighting industry will need to adapt to changing environmental regulations and CO<sub>2</sub> emission reduction requirements globally. The movement towards energy efficient technologies has led to the implementation of new regulations aimed at phasing out conventional lighting technologies and the majority of incandescent lighting products are banned in most developed countries, while China and Brazil are in the process of phasing out these technologies. Other conventional lighting technologies are also expected to be banned over time; for example, the European Commission has passed regulations phasing out halogen lighting technologies by 2018.

The increasing demand for efficient light and the implementation of new regulations accelerate the adoption of LED technology. The key benefits of LED over conventional lighting technologies are: (i) lower energy consumption and (ii) a longer lifespan. LED is currently approximately four to five times more energy efficient than some conventional technologies, such as incandescent lamps and halogen lamps, and this efficiency is expected to further improve over time. According to BCG, LED lamps also have a longer lifespan with an average lifespan of approximately 15 years, representing on average four times the lifespan of CFL lighting and

<sup>16</sup> Source: United Nations July 2015 statistics.

<sup>17</sup> Source: United Nations June 2014 statistics.

<sup>18</sup> World GDP grew approximately 3% CAGR over the same period, based on IMF GDP estimates based on market exchange rates.

<sup>19</sup> Source: Lighting represented almost 20% of global electricity consumption according to the International Energy Agency (2011).

ten times that of incandescent lamps. The Group, however, believes that LED lamps have a lifespan of 1.5 to 4 times the lifespan of CFL lighting, depending on the product and market combination.

The expected continued price declines of LED lamps are expected to further encourage the transition from conventional to LED. BCG expects the average price of an LED lamp (bulbs and spots) to decline from more than €4.5 in 2014 to less than €2.3 in 2020. The Group, however, believes that the average market price of an LED lamp (bulbs and spots) to decline faster than as expected by BCG. The decline will be mainly driven by technological improvements in manufacturing and product design, increasing LED chip efficiency (*i.e.*, fewer LED chips required for a similar amount of light output) and reduction in the cost of mechanical and electronic parts.

### ***Increasing demand for digital lighting***

One of the contributing factors to the increased use of LED technologies is the expanding offering of systems which enable users to program and control lights through connectivity with sensors and networks. The cloud and networks are creating a new market that can be defined as digital light, connected lighting systems or smart systems. The lighting systems market is expected to grow from €3.2 billion in 2014 to €7.0 billion in 2020, representing a 14% CAGR over the same period.

Connected lighting systems offer multiple applications for professional and consumer end-users. For example, lighting in offices can be automatically adjusted based on the level of natural lighting outside and as a result provide energy savings, optimization of office space and overall safety. Furthermore, integration of sensors in the lighting network allows for optimized cleaning schedules depending on which rooms have been used during the day. In addition, connected lighting systems can also be controlled and managed by users via smart phone and device applications and remotely by building administrators, making these systems increasingly accessible to a broader group of users. The evolution of the regulatory framework is also supporting the development of energy saving connected lighting systems. For example, U.S. regulations require that lighting in most buildings is controlled automatically to adjust light usage based on working hours or occupancy. Energy suppliers are also encouraging their customers to adopt connected lighting as a way to reduce significant energy demand peaks. Energy cost reductions from efficiently controlled systems can be substantial (approximately 40% on top of the savings offered by LED). The ability to track lamps burning out and other dysfunctions can offer a reduction of maintenance expenses to customers.

The transition to connecting lighting is expected to occur most quickly within the professional category in developed countries. Professional systems typically control a large network of lights and potential savings based on total cost of ownership tend to be significant. As an example, connected lighting enables cities to centrally manage street lighting and adapt intensity depending on weather, traffic movement or organized events, thereby realizing significant energy cost savings. In retail stores, luminaires can be equipped with visible light communication which allows the creation of an indoor positioning system which, for example, allows retailers to develop apps to help shoppers navigate through the store, expand into location-based services and enhance shopper experience and loyalty. Furthermore, the increased integration of IT and software components within the lighting infrastructure creates the opportunity to offer additional services such as consultancy and services based on data analytics and sensor data collected by smart systems for professional customers.

Smart connected lighting for the consumer market (*e.g.*, home systems) generally delivers less significant cost savings for the end-user than professional systems due to the smaller number of lights in a household and the lower frequency at which lights are used. As a result, growth in connected lighting in the consumer market will likely lag that of professional systems. However, the Group believes that connected lighting in the consumer market will become one of the leading carriers for connected objects in the Internet of Things (*i.e.*, the network of physical objects, devices and other items which are embedded with electronics, software, sensors and network connectivity which enables these objects to collect and exchange data). The Group believes that the home systems market is expected to transition from non-connected to connected systems, and that the adoption of home systems is mainly driven by its applications, such as the ability to use color combinations, smart control and programmability, and not necessarily by cost savings. The number of smart homes is expected to increase from 174 million in 2015 to 339 million in 2016.<sup>20</sup> The Group also believes that lighting is the second most desired application (after security) for smart homes.

### **Competition and the Group's Market Position**

The Group faces competition within its key business segments: (i) professional and consumer conventional lamps and lamp electronics (BG Lamps), (ii) LED lamps and LED electronics (BG LED), (iii) professional luminaires, systems and services (BG Professional), and (iv) consumer luminaires and systems (BG Home). The

<sup>20</sup> Gartner Press Release, "Gartner Says Smart Cities Will Use 1.6 Billion Connected Things in 2016", 7 December 2015, [www.gartner.com/newsroom/id/3175418](http://www.gartner.com/newsroom/id/3175418).

competition varies between segments and along the value chain but the Group is one of the few companies with an integrated position across the downstream value chain, from lamps up to lighting services, which it believes provides the Group with significant technology and go-to-market integration benefits as opposed to its competitors. Furthermore, the Group believes that it is the largest downstream lighting company in the world and holds leading positions in conventional and LED lamps, electronics and luminaires.

### ***BG Lamps***

The Group believes that it holds a number one position in sales in the professional conventional lamps, consumer conventional lamps and conventional lamp electronics segments. The Group also believes that it holds a number one position in sales across all categories in each Market Group (Europe, Americas, Greater China and Growth Markets).

The Group believes that the conventional lamps and lamp electronics market is comparatively concentrated, with the Group, Osram and GE as the top three market participants measured by sales. Based on the Group's internal research, it believes that it held a number one position in sales in 2014 and 2015 in the global conventional lamp market and in digital projection lighting products ("DPL"). The Group believes that its market share in 2015 was in the low twenties. The Group believes that it has improved its competitive position and benefits from significant cost advantages globally due to pro-active early restructuring measures.

The Group believes that its position is strongest in the professional conventional lamps market, a market which the Group perceives as highly concentrated. The Group perceives the consumer conventional lamps market as less concentrated. This market is converging fast to LED as legislation bans a number of incandescent and halogen products in a number of markets in the world. The Group sees the share of retailers' private label brands growing in the consumer conventional lamps market. Nevertheless, the Group believes that it is still the market leader worldwide in terms of sales. In lamp electronics, original equipment manufacturers ("OEMs") are reducing the number of suppliers, which will potentially drive further concentration in the market. The Group believes that its position in the lamp electronics market is strong, especially in Americas. In DPL, the Group believes that it is leading worldwide in terms of sales.

### ***BG LED***

Based on internal research, the Group believes that it held a number one position in sales in the global LED lamps and electronics market in 2015 with a market share in the mid-teens. The Group also believes that it held number one positions in sales in the LED lamps and electronics market in Europe, Americas and Growth Markets, and a number two position in sales in Greater China in 2015.

The LED lamps market is dynamic and more fragmented than the conventional lamps and electronics market. Europe and the United States are relatively more concentrated while the market in China is relatively fragmented. The LED lamps market features short product life spans due to rapid innovation. The Group faces significantly growing competition in Greater China from local LED lamps brands, as most of the global LED lamps and electronics components manufacturing industry is centered in China. The Group faces increased LED lamps competition from private label products, or products manufactured or provided by one company for offer under another company's brand, primarily in Europe and North America. Other global competitors active in LED lamps include Osram, Panasonic, Toshiba, GE, Cree and TCP. The Group believes that it holds number one positions in sales in the LED lamps markets in Europe, Americas and Growth Markets (excluding Japan), and a top three position in sales in Greater China. To maintain its competitive leadership, the Group continues to invest in product engineering to drive innovation forward and cost down, and to emphasize its quality products and brand identity.

The Group believes that the LED electronics market is more concentrated than the LED lamps market. The largest companies active in the LED electronics market include the Group, Tridonic (part of Zumtobel) and Osram. Other notable competitors are Samsung and LG Innotek. The Group believes that it holds leading positions in terms of sales in the LED electronics market in Americas, Europe and globally. The LED electronics market is characterized both by rapid innovation as well as strict customer requirements. The Group believes that it is able to differentiate itself from its competitors through rapid product innovations and reduction of costs, close and collaborative customer relationships, and its brand identity as a quality supplier. The Group believes that it generates more than 70% higher sales in LED lamps and electronics than its nearest competitor does.

### ***BG Professional***

The Group believes that it is the global leader in terms of sales of conventional and LED luminaires, systems and services with strong positions across geographies.

The competitive dynamics of the professional luminaires and systems market differ significantly by geography with many regionally focused competitors. The Group perceives the professional luminaires and

systems markets in Europe and North America as relatively concentrated, where top three players hold more than 45% in North America and more than 30% in Europe, and the markets in Greater China and Growth Markets as highly fragmented. The Group also sees incumbent, well-known technology and software companies entering the lighting market, particularly with respect to connected systems and services, as they seek to expand applications for their existing software and control systems and applications.

Based on internal research, the Group believes that it held a number one position globally in sales in the professional luminaires and systems and services market in 2015 with a market share in the high single digits. It believes that it had a number one position in sales in Europe (ahead of Zumtobel, Fagerhult and Schröder), a number one position in sales in India (main competitors include Crompton, Bajaj and Havells) and a number one position in sales in Growth Markets (excluding Japan), where the main competitors are Panasonic and Toshiba. It believes that it held a top three position in sales in China together with NVC and OceanKing and a top four position in sales in North America, with Acuity Brands, Cooper Industries and Hubbell as main competitors.

### ***BG Home***

The Group believes that it is a top three player in sales in selected consumer luminaires markets and a leader in home systems.

The Group believes that most markets for consumer luminaires are localized and fragmented, with a few global and regional players, particularly companies with their own distribution including Ikea Private Label and Home Depot Private Label. The Group believes that in 2015 it held number two positions in sales in Europe, Greater China and Growth Markets, and a top three position globally.

The Group believes that the market for home systems is an emerging new category, which is fast growing in line with the general growth in smart home applications. The Group believes that increased interoperability across smart home systems and increased awareness will enhance consumer adoption and that lowering up-front cost to enable consumers to step in at lower price points will further accelerate growth. With respect to home systems, the Group believes that Europe and Americas will remain the main markets, but the Group expects Asia to become a more important market for home systems. The Group estimates that it holds a number one position in sales in Europe, Americas, Greater China, Growth Markets and globally in terms of sales in the home lighting systems market.



## BUSINESS

### Overview

The Group is a global market leader in the general lighting market measured by sales with recognized expertise in the development, manufacturing and application of innovative lighting products, systems and services. The Group has pioneered many of the key breakthroughs in lighting over the past 125 years, including incandescent lighting, HID lamps, fluorescent lighting and CFL, and has been a driving force behind several technological transitions, laying the basis for its current strengths and its leading position in the transition of the lighting industry from conventional lighting technologies to LED lighting technologies as well as lighting systems (including connected lighting systems) and services. The Group has a strong track record in innovation and invests heavily in R&D (for the year ended 31 December 2015, 4.9% of sales) to stay at the forefront of technological developments. It has a strong patent portfolio with over 14,000 patent rights, which it believes is more than any of its competitors, and a licensing program with over 600 licensees as of 31 March 2016.

The Group believes that it is well positioned across the lighting value chain and has a focus on the general lighting market. The Group's light source product portfolio includes incandescent lamps, halogen lamps, fluorescent lamps, LFLs, CFLs, HID lamps and LED lamps. In addition, the Group offers electronic components, such as electronic ballasts and drivers, as well as complete luminaires for consumers and professional users. The Group also places emphasis on offering innovative, integrated and customized lighting systems and services, including light management systems and value-added services such as energy audits, light design and engineering as well as remote monitoring and managed services. The Group's products are used for illumination and visualization in a variety of applications for general lighting, in particular residential, road and street, architectural, office, industrial, retail and hospitality lighting. The Group also produces light sources and systems for special applications, such as projection, cinema, entertainment, city beautification (*i.e.*, dynamic architectural lighting) and horticulture as well as water purification (*e.g.*, disinfection with ultraviolet radiation). The combined LED and automotive lighting components businesses of Royal Philips were separated into a stand-alone company in 2015. The lighting components and automotive lighting businesses are not reflected in the financial results of the Group.

The Group's business is organized and managed on a functional basis by technology and end-markets through four operating Business Groups: BG Lamps, BG LED, BG Professional and BG Home. BG Lamps comprises the Group's conventional lamps and lamp electronics businesses; BG LED comprises the Group's LED lamps and LED electronics businesses; BG Professional comprises the Group's professional luminaires, lighting systems and services businesses; and BG Home comprises the Group's consumer luminaires and home systems businesses. Each Business Group is responsible for the development of its strategy, product portfolio and the production and sourcing of its products. In addition, the Group's commercial organization is structured along four geographical Market Groups to manage its global sales channels: Europe, Americas, Growth Markets and Greater China.

The Group has a global reach with commercial activities that cover approximately 180 countries. The Group has operational manufacturing plants in 22 countries in all major regions of the world, and more than 70 sales offices worldwide. The Group handles commercial activities in countries without a sales organization via independent distributors and agents who cooperate closely with the Group's international sales organization.

For the year ended 31 December 2015, the Group's sales were €7,465 million (2014: €6,981 million; 2013: €7,129 million), the Group's income from operations was €331 million (2014: €41 million; 2013: €213 million), the Group's adjusted EBITDA (unaudited) was €739 million (2014: €665 million; 2013: €659 million) and the Group's free cash flow (unaudited) was €632 million (2014: €355 million; 2013: €84 million). For the three-month period ended 31 March 2016, the Group's sales were €1,702 million, the Group's income from operations was €71 million, the Group's adjusted EBITDA (unaudited) was €161 million and the Group's free cash flow (unaudited) was €(78) million. As of 31 March 2016, the Group employed approximately 36,350 FTEs worldwide. See also "Important Information—Non-IFRS financial measures" and "Operating and Financial Review—Non-IFRS Financial Measures".

### History

The origin of the Group dates to 1891 when Gerard Philips and his father Frederik Philips founded Philips & Co. in Eindhoven, the Netherlands. Recognizing that the rise of electricity would offer new opportunities, and inspired by Gerard Philips' knowledge of electrical products and engineering, the Philips family entered the business of producing and selling incandescent lamps. Anton Philips, the younger brother of Gerard Philips, joined the company in 1895 and proved to be an effective salesman and entrepreneur. Almost from the outset, a significant majority of the output was exported, first to European countries like Russia and Germany, later also to Australia, Japan, South Africa and Argentina. Within the next fifteen years, the company was one of the major producers of light bulbs in the world. In 1906, Philips & Co. mastered the technological transition from lamps

using carbon filaments to lamps using tungsten filaments. A few years later, in 1912, the company became listed on the Amsterdam stock exchange under the name N.V. Philips' Gloeilampenfabrieken. From the 1920s onwards, the company diversified and Royal Philips functioned as the primary holding company, including for the lighting business.

In the following decades, the demand for lamps increased and the range of lighting applications expanded steadily. Production was internationalized through new lighting manufacturing centers abroad and by acquiring other businesses. Eindhoven remained the main center for R&D. Scientific and technical research has always been at the core of many improvements and modernisations. Royal Philips' research laboratories, established in 1914, together with the factory laboratories that had been established previously, were driving forces behind many lighting innovations: from the production of incandescent lamps in the 19th century to the current transition from conventional lighting products to LED lighting products, systems and services. The Group believes that through its continuous innovations it has been instrumental in leading the lighting industry through many of these technological changes.

Highlights in the historical development of the Group include the following events:

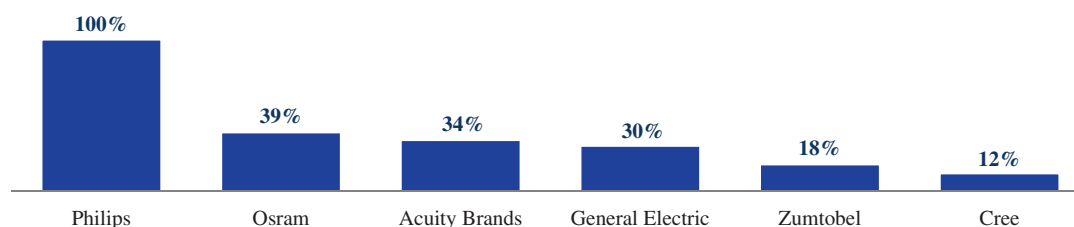
- 1923        The Group establishes a sales company in Shanghai, China
- 1932        The Group is the first to commercialize the low pressure sodium lamp thereby putting it ahead of the competition on road lighting
- 1938        The Group develops the "TL-tube". The fluorescent tube is used in offices, factories, schools and rooms with high ceilings
- 1964        The Group develops halogen lamps for professional use and automotive
- 1980        The Group is the first to produce a commercially successful CFL, an energy saving miniature fluorescent tube with fitting and becomes a leader in this segment
- 1982-1983   The Group acquires Compagnie des Lampes in France and the lighting division of Westinghouse in the U.S. and becomes the largest light bulb and tube manufacturer in the world
- 1999        The Group enters the LED market and within a few years becomes a leader in high power LEDs
- 2007        The Group acquires Partners in Lighting International (PLI), a leading European manufacturer of home luminaires. With this acquisition the Group enters the consumer luminaires market and strengthens its presence in LED
- 2007        The Group acquires Color Kinetics, a leading U.S.-based company in designing and marketing innovative LED lighting systems with a broad technology and intellectual property portfolio
- 2008        The Group acquires the North American luminaire manufacturer Genlyte which strengthens the Group's position in the U.S. market for professional lighting applications
- 2011        The Group wins the U.S. Department of Energy's Bright Tomorrow Lighting Prize (L-prize) for the first commercially viable 60 Watt equivalent LED bulb, an energy saving replacement for conventional light bulbs
- 2012        The Group acquires Industrias Derivadas del Aluminio. S.L. ("**Indal**"). With this acquisition the Group grows its presence in professional outdoor lighting applications, creating a platform to expand its capabilities to deliver lighting solutions and lead the transition to energy-efficient LED-based lighting applications
- 2012        The Group introduces Philips Hue, the world's first commercially available internet-enabled LED home lighting system, which enables users to control light wirelessly with an app on their smartphone or tablet and to personalize their lighting preferences and needs
- 2014        The Group acquires a 51% interest in GLC based in the Kingdom of Saudi Arabia. This joint venture combines the Group's expertise in LED technology and global supply base with GLC's local market knowledge and commercial capabilities making it a leading lighting player in the largest economy in the Middle East
- 2015        The combined LED and automotive lighting components businesses are separated into a stand-alone company and as a result the Group is no longer active in the lighting components and automotive lighting businesses
- 2016        The Group separates from Royal Philips and begins to operate as a stand-alone company (see "Separation")

## Competitive Strengths

The Group is a global market leader in the general lighting market, which is transitioning from conventional lighting technologies to LED lighting technologies as well as lighting systems and services. The Group believes that it possesses several key competitive advantages, which will support the Group in maintaining its leading position in the general lighting market:

### *The Group has global leading positions across the lighting value chain*

The Group is a global market leader in the general lighting market measured by sales with recognized expertise in the development, manufacturing and application of innovative lighting products, systems and services. The Group's sales in 2015 were significantly higher than the sales of any of its competitors in the general lighting market.



Source: Internal analysis based on publicly available information (annual reports, investor relations presentations and press releases)<sup>21</sup>.

The Group firmly believes that its global leadership provides it with a competitive advantage that will allow it to benefit from future growth opportunities. The Group's size and positioning across the value chain provide significant economies of scale, including procurement advantages, and allow the ongoing development of innovative technologies, products and services across the value chain.

- Conventional lamps and conventional lamp electronics (BG Lamps): the Group believes that it is, and traditionally has been, the largest player in this relatively concentrated and declining market segment, allowing for significant channel and cost advantages;
- LED lamps and LED electronics (BG LED): the Group believes that it is the global market leader in the fast growing and fragmented LED lamps and electronics market. The Group believes that its market position and brand name allow for premium pricing, supported by its global distribution network and the relationships with key OEMs, wholesalers and retailers;
- Professional luminaires, systems and services (BG Professional): the Group believes that it has overall market leadership globally in this growing market segment. The Group believes that it benefits from its recognized expertise in lighting application and luminaire design while its global scale allows for fast scale-up of new developed systems and services; and
- Consumer luminaires and systems (BG Home): the Group believes that it is a top three player globally in the localized and fragmented consumer luminaires and systems market, which has few global players. The Group believes that it will benefit from commercial and technological integration from its other activities in order to capture further market share.

The Group's diversified business profile in terms of geographic presence, technology and sales channels adds to the resilience of the Group's business model.

### *Strong global brand and well established global channels expand sales*

The 'Philips' brand enjoys a long history and has developed significant brand value over time driven by the Group's reputation for innovation, understanding of customer needs, quality and range of propositions. The Group believes that the strength of its brand drives sales as lighting customers spend up to 60-70% share of wallet (*i.e.*, the percentage of a specific customer's spending on products and services that is captured by a specific company) with their preferred brand and allows the Group to believe that it earns higher margins in general than its competitors.

<sup>21</sup> Percentages present comparable sales for the year 2015 (the Group = 100%). Based on sales calendarized to year-end 2015 and converted into euros using the average 2015 exchange rate. Osram indexed sales exclude specialty lighting and its Opto Semiconductors segments which are not comparable to the Group (44% on an indexed sales basis). Cree indexed sales exclude LED products and power & RF products (8% on an indexed sales basis).

Based on internal analysis and independent third party studies commissioned by the Group, indicators of the Group's brand strength include:

- Net promoter score: the Philips brand received leading net promoter scores with its customers in 2015;
- Brand reputation: the Philips brand reputation and strength in the lighting industry scores 70 on a scale from zero to 100, which is 20 points above an average brand in its industry and remained roughly stable in the 2013-2015 period;
- Top of mind awareness: the top of mind awareness of the Philips brand is 2 times higher than the awareness of the brand of its nearest competitor; and
- Preferred LED brand: in 2015, for the fourth year in a row, Philips was globally the most preferred brand in LED lighting in both the professional and consumer categories.

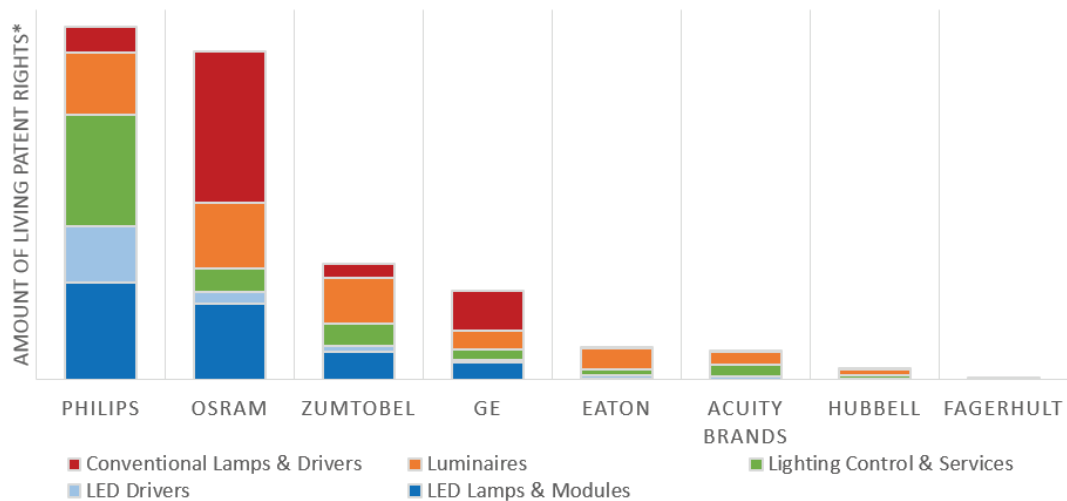
As part of the Separation, Royal Philips and the Group have entered into an exclusive trademark license agreement with respect to the use by the Group of the Philips brand for lighting products, systems and services for the next ten years. The term may be extended for two periods of five years. The Group has also secured the right to use the Philips company name for a period of 18 months after the date that it is no longer controlled by Royal Philips (see "Separation—Intellectual Property").

In addition to its strong brand, the Group has a global sales and distribution channel structured along four geographical Market Groups (*i.e.*, Europe, Americas, Growth Markets and Greater China), which it believes would be difficult for a competitor to replicate. The size of the Group's operations and its geographic reach ensure global client coverage across 180 countries with more than 70 sales offices while maintaining local proximity to its customers. Local, dedicated sales teams have developed longstanding customer relationships and quickly adapt to local needs and market circumstances. Its distribution network of approximately 120 distribution centres globally as of 31 December 2015 allows the Group to offer its full portfolio of products to all customers, to quickly scale-up and roll-out innovative products and services, and to leverage best practices across the globe. In addition, the Group's global sales and distribution network provides visibility and extensive knowledge in the flow of components and the supply chain.

#### ***Leading innovation capabilities drive fundamental change in the lighting industry and fuel the Group's growth***

The Group has been innovating and leading the lighting industry through many technological changes with an established track record in conventional and LED lighting products since it produced the first commercial incandescent lamp in 1891. The Group continues to invest in R&D, alliances and intellectual property to drive new product development and energy-saving solutions:

- R&D: as of 31 March 2016, the Group employed approximately 2,750 FTEs in the R&D function and the Group spends approximately 5.0% of annual sales (2015: €366 million (4.9% of sales), 2014: €395 million (5.7% of sales), 2013: €375 million (5.3% of sales)) on R&D in an effort to stay at the forefront of technological developments. The scale of the Group allows for ongoing innovation and quick roll-out of leading edge technology;
- Alliances: the Group has numerous alliances with parties such as Apple, Cisco, Somfy, SAP, Vodafone and Nest to drive product adoption and new applications, offering a superior connected lighting experience. The Group believes that its alliances with leading industry brands support its own brand awareness as the world's leading lighting company; and
- Intellectual property: the Group believes that it has more lighting and lighting controls patents than any other competitor. Approximately 90% of its patent rights are LED and digital lighting related and approximately 10% are conventional lighting related. In addition, the Group has a licencing program with over 600 licensees as of 31 March 2016.



Patents issued by the European Patent Office counted as one living patent right, independent of number of designations.

Source: Internal analysis based on publicly available information (Derwent World Patents Index, annual reports, investor relations presentations and press releases)

Key benefits of the Group's strong patent portfolio include cross license agreements enabling higher margins in certain areas and higher market shares, and the ability to get better conditions in licensing-in agreements.

The Group believes that its technological expertise and its innovative capabilities combined with its leading position in the lighting industry fuel the Group's growth potential. They allow for the Group's products, systems and services to integrate leading energy-saving technology, distinctive styling and strong end-user experience, while being able to obtain higher gross margins due to the uniqueness of many of its products and services.

#### ***Strong track record of cost savings drives profitability and cash generation***

The Group has significant experience and a strong track record in terms of realizing cost savings in order to maintain and improve profitability, margins and cash generation. Historic cost savings have focused on (i) footprint rationalization, (ii) bill-of-material costs, and (iii) productivity and efficiency improvements:

- **Footprint rationalization:** the Group believes that it is generally ahead of its competitors in managing its conventional lighting manufacturing footprint while maximizing free cash flow from its conventional lighting business. The Group has reduced the number of its conventional lamps operational manufacturing plants from 45 in 2008 to 21 as of year-end 2015. The Group plans to continue reducing its manufacturing footprint through relocation of manufacturing activities to more efficient manufacturing locations close to relevant markets and consolidation of operational manufacturing plants for cost efficiency and to reflect trends in demand. The Group has plans for each operational manufacturing plant for possible phase-outs and maintains a flexible approach in order to be able to bring plant closures forward should this be required in the context of an accelerated market decline. The Group aims to continue its track record of maintaining its adjusted EBITA ratio of its conventional lighting business over the medium term and its constant free cash flow from its conventional lighting business (excluding restructuring costs) as a percentage of sales over the medium term.
- **Bill-of-material costs:** both the conventional and LED lighting markets have been subject to price erosion due to technological improvements in manufacturing and product design, increasing LED chip efficiency (*i.e.*, fewer LED chips required for a similar amount of light output) and reduction in the cost of mechanical and electronic parts. In order to offset this, the Group carefully tracks and manages its bill-of-material cost savings. The Group believes that its track record of realizing bill-of-material cost savings from both product engineering and price negotiations in addition to its scale, provide a sustainable competitive advantage versus its peers; and
- **Productivity and efficiency improvements:** over the last few years the Group has implemented several cost savings programs with regard to overhead and other operating expenses (*e.g.*, the "Accelerate!" productivity program of Royal Philips that includes for example improvements in internal and external quality performance, reduction in functional overhead and selling expenses, and savings in warehousing and distribution expenses). The Group believes that it has been successful in achieving cost savings in these areas. For example, aggregate adjusted selling expenses, R&D expenses and general and administrative expenses, in each case excluding restructuring costs, acquisition-related charges and other incidental



charges, as a percentage of sales decreased from 32.2% for the year ended 31 December 2013 to 31.7% for the year ended 31 December 2014 and 31.0% for the year ended 31 December 2015.

Given the expectation of a further decline of the conventional lighting market and continued competition in the LED lighting markets, the Group expects to benefit from its strong track record and know-how in terms of cost savings resulting in improved profitability and cash generation. In addition, the Group expects that its transition to an “asset light” business model as a result of outsourcing many of its LED manufacturing activities will result in lower capital expenditure requirements going forward.

### ***Experienced and diverse management team is driving operational improvements and financial performance***

The Group has a highly skilled international senior management team with a broad range of relevant industry and functional knowledge and geographic backgrounds. The members of the Group’s senior management team are widely recognized in the market and bring significant individual experience to the overall team. The management team with its capabilities forms a key enabler for the implementation of the Group’s strategic priorities. The strength of the Group’s senior management team is demonstrated by the Group’s track record in terms of operational excellence and financial performance with gross margin improvements and significant operating expense savings having resulted in an adjusted EBITA ratio (unaudited) improvement from 6.4% in 2013 to 7.3% in 2015. In addition, the Group believes that it is successful in attracting experienced and talented senior management. The Group believes that the members of its organization are aligned in their ambition, strategy, focus and operational standards.

### **Strategy**

The Group’s strategy is to leverage its strengths to capture the market opportunities presented in the transitioning lighting market. The Group’s market leading positions in both conventional and LED lamps and electronics provide a strong starting position to expand the LED products, systems and services business whilst further leveraging the conventional lighting business. The Group has identified six key strategic priorities to achieve its objectives:

#### ***Optimize cash from conventional products to fund its growth***

The Group’s conventional business has historically been and currently remains the greatest contributor to cash flow generation. The Group aims to leverage its conventional business and to continue managing this business for cash optimisation. In order to achieve this, the Group has identified two key focus areas: (i) continue consolidating the industry in a declining market, and (ii) continue to exert cost leadership by downscaling the manufacturing footprint and leveraging the Group’s procurement scale.

- (i) **Consolidation:** the Group’s goal is to leverage its conventional lamps business by growing market share and optimizing cash from conventional lighting products by flexibly anticipating the slower or faster phase-out of conventional products. The Group seeks to increase its market share in key conventional segments by leveraging the brand preference and net promoter score leadership globally. While the overall conventional market continues to decline, the Group expects to benefit from capturing volumes from smaller players exiting the market, thereby increasing its market share. Note that it is the Group’s intention to gain market share organically; and
- (ii) **Cost leadership:** the Group has a strong track record of managing its manufacturing footprint in line with the conventional market decline and believes that it is ahead of the competition in this respect. The Group intends to continue downscaling its manufacturing footprint in line with demand developments. The Group has plans for each operational manufacturing plant for possible phase-outs. Furthermore, the Group maintains a flexible approach in order to be able to bring plant closures forward should this be required or appropriate in the context of accelerated market declines. In addition to the footprint rationalization, operational excellence initiatives and simplification of the product portfolio are expected to result in additional efficiency gains and cost reductions.

The Group expects the combination of further consolidation and managing the cost base to result in continued strong cash generation from its conventional business. In 2015, BG Lamps maintained its cash contribution to the Group as a percentage of sales.<sup>22</sup>

#### ***Innovate in LED products commercially and technologically to outgrow the market***

BG LED, BG Professional and BG Home strive for continued innovation in LED lighting products and tailored marketing approaches in order to outgrow the market.

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<sup>22</sup> Based on reported EBITDA minus net capex as a percentage of sales.

- (i) LED lamps and LED electronics: BG LED aims to strengthen its leadership position in LED lamps and LED electronics by:
  - a) increasing consumer LED lamp sales through ongoing new product introductions, meaningful product differentiation and transformation of the marketing approach with increasingly more focus on drawing customers to the product;
  - b) growing business-to-business LED lamp sales by continuing to lead in product innovation and upgrading business-to-business trade and online marketing; and
  - c) generating more LED electronics revenues from global OEMs by increasing the number of OEM customers and growing the share of LED electronics wallet with existing OEM customers.
- (ii) LED luminaires: BG Professional and BG Home intend to continue to lead the transition from conventional to LED luminaires:
  - a) In order to increase LED luminaire margins and price competitiveness, the Group works on ongoing LED luminaire complexity reduction and product modularity;
  - b) BG Professional and BG Home work on a differentiated LED luminaire portfolio to sell higher value products to customers; and
  - c) The Group aims to invest in growing online LED luminaire sales and driving a differentiated regional go-to-market approach.

In 2015, LED lighting products generated 43% of the Group's sales (2014: 34%; 2013: 26%), compared to 57% of the Group's sales generated by conventional lighting products (2014: 66%; 2013: 74%). In the first quarter of 2016, LED lighting products generated 50% of the Group's sales (Q1 2015: 39%).

***Lead the shift to lighting systems, building the largest connected installed base***

The Group believes that connected lighting will be increasingly important in the general lighting market. Accordingly, the Group plans to play a leading role in the industry shift to lighting systems in both the professional (BG Professional) and consumer (BG Home) markets. The Group strives to create the largest installed base of connected light points (*i.e.*, the sum of all connected light points installed by the Group globally). The Group expects its local presence, global scale, innovation and go-to-market, customer intimacy and in-depth domain expertise delivering modular global system architectures, to contribute to the Group's leading role in the connected lighting industry. The Group is recognized as the number one player in connected lighting.<sup>23</sup>

BG Professional seeks to strengthen its global lighting systems leadership by accelerating the roll-out of its leading architectures for connected lighting systems to end-users in all segments of the professional lighting market and expects the proportion of its sales attributable to lighting systems and lighting services to end-users to increase significantly. With a clear focus on innovation, the Group aims to be the first-to-market with breakthrough applications. At the same time, the Group expects to continue enhancing the cost competitiveness of its systems by harmonizing controls and management software and through bill-of-material savings (*i.e.*, as a result of product engineering and procurement).

BG Home expects significant growth in the connected home lighting systems segment. It plans to take a leading role in this shift to connected lighting by (i) building awareness of the benefits of connected lighting, (ii) forging partnerships with key platforms and smart-home devices to drive adoption and sales by investing in new applications and interoperability, (iii) expanding the product offering to cover key price points, and (iv) expanding the connected consumer luminaire portfolio by developing OEM solutions. In addition, the Group aims to create differentiated regional approaches and grow its online and electronic retail distribution.

In addition, BG LED plays an active role in the development of lighting systems and services through its production of LED electronics and the sales thereof to OEMs, as well as its production of connected lamps (specifically TLEDs) and the sales thereof to the professional segment. These LED electronics and connected lamps are often used in lighting systems.

***Capture adjacent value through new services business models***

In BG Professional, the Group seeks to realize additional revenues from its installed base through value added service offerings. In order to capture this value opportunity, the Group focuses on developing capabilities around data analytics and software, and developing new data-enabled life cycle (*e.g.*, maintenance, remote monitoring), professional (*e.g.*, audit, design) and managed (*e.g.*, outcome versus performance commitment

<sup>23</sup> MarketsandMarkets, "Smart Lighting Market (2014-2020)".

based contracts) services. Innovative services are developed in co-creation with the systems and product teams to increasingly build end-to-end competencies. Once new services have been developed, the global scale and strong local presence of the Group enable rapid upscaling.

***Be its customers' best business partner locally, leveraging its global scale***

The Group aims to utilize its long-standing local customer relations and global distribution network in conventional lamps and lamp electronics to lead the transition to LED lighting, systems and services. The Group's global reach and client proximity allow it to deliver product portfolios that address local market needs with both high volume products and differentiating propositions. In order to accelerate growth momentum, the Group intends to increase local coverage in priority Growth Markets and China. In North America, the Group seeks to unlock potential and improve customer relationships through increased effectiveness of agents and re-establishment of the distribution business.

***Accelerate! on its operational excellence improvement journey***

The Group has a strong track record of improving margins through footprint rationalization, bill-of-material cost savings, and productivity and efficiency improvements, despite declining volumes in conventional products and price pressure in primarily LED lamps. Under the Accelerate! productivity program of Royal Philips which started in 2011, the Group aims to leverage its operational excellence capabilities across the organization by continuing to implement programs which are focused on minimizing waste, reducing defects and increasing the efficiency of operations across the entire value chain whilst reducing fixed costs. The Group will continue to focus on operational excellence and has implemented various cost saving programs to continue optimizing costs, including:

- (i) Selling expense savings: The Group is working towards a standard end-to-end process framework that enables the execution of all the route-to-markets for products, systems and services in a repeatable and standardized way which drives cost efficiencies. Following the deployment of these standard processes in 2016 and 2017, the Group expects to enter a cycle of continuous optimization through simplification and digitalization;
- (ii) IT rationalization: The Group is transforming its IT function to achieve IT cost benchmarks, by rigorously decommissioning and consolidating applications, optimizing support models including in-, or outsourcing and simplifying hosting structures. The Group expects that IT rationalization will generate considerable cost savings; and
- (iii) Other internal overhead savings: The Group believes that there is significant room for additional cost savings in other enabling functions like finance, HR and real estate and will continue to focus on capturing these by simplifying the way of working and consolidating back-offices.

**Outlook**

The Group has established the medium and long term objectives set forth below to serve as measures of its operational and managerial performance on a Group-wide level and at the level of each Business Group. The Group's ability to achieve these financial objectives is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Group's control, and these financial objectives have been developed based upon assumptions with respect to future business decisions and conditions that are subject to change. As a result, the Group's actual results may vary from the financial objectives set forth below, and those variations may be material. Many of these business, economic and competitive uncertainties and contingencies are described in "Risk Factors". The Group does not undertake to publish revised financial objectives to reflect events or circumstances existing or arising after the date of this Prospectus or to reflect the occurrence of unanticipated events or circumstances. See also "Important Information—Forward-Looking Statements" for further information.

The Group has not defined by reference to specific periods the terms "medium term" or "long term", and the financial objectives below are not to be read as indicating that the Group is targeting or expecting such metrics in respect of any particular financial year.

Subject to the foregoing, the Group is targeting the following for the purpose of measuring operational and managerial performance on a Group-wide level:

- return to positive comparable sales growth<sup>24</sup> in the course of 2016 with comparable sales growth converging to the growth of the general lighting market in the medium term, driven by an increasing contribution of LED lamps, luminaires and systems and services, versus a diminishing proportion of conventional lighting;

<sup>24</sup> The Group defines comparable sales growth as the period on comparable prior year period growth in sales excluding the effects of currency movements and changes in consolidation.

- maintain broadly constant adjusted gross margin<sup>25</sup> in line with historical performance over the medium term, in which the transition to higher margin LED luminaires is expected to offset the transition to lower margin LED lamps;
- gradually improve the adjusted EBITA ratio<sup>26</sup> to the low teens in the medium term, driven by significant savings in selling expenses, R&D expenses and general and administrative expenses;
- incur annual total restructuring costs of between approximately 1.5% and 2.0% of the Group's annual total sales in each financial year over the medium term, with the majority of these restructuring costs expected to relate to BG Lamps and BG Professional;
- incur annual total restructuring costs of between approximately 0.5% and 1.0% of the Group's annual total sales in each financial year over the long term;
- make net capital expenditures<sup>27</sup> as a percentage of sales of 1.0% to 1.5% in each financial year over the medium term, driven by the transition to a more asset-light outsourcing model; and
- achieve strong cash flow, with free cash flow excluding interest and taxes divided by EBITDA increasing to >75% in the medium term.

Subject to the considerations in the first paragraph above, the Group is targeting the following for the purpose of measuring operational and managerial performance at the level of each Business Group:

- BG Lamps:
  - achieve comparable sales development in line with the conventional lamps market development in the medium term;
  - maintain the adjusted EBITA ratio over the medium term, driven by pro-active restructuring and cost savings;
  - incur total restructuring costs in relation to BG Lamps of approximately €(0.3) billion over the medium term, primarily in relation to manufacturing footprint rationalization and restructuring of R&D and sales activities;
  - the Group currently does not expect to have to restructure the remaining BG Lamps production facilities over the long term. However, if the Group were to decide to restructure all remaining BG Lamps production facilities, it estimates that additional restructuring costs would amount to approximately €(0.2) billion; and
  - maintain constant free cash flow (including restructuring costs) as a percentage of sales over the medium term.
- BG LED:
  - achieve comparable sales growth slightly above the market growth in the medium term; and
  - achieve a gradual increase of the adjusted EBITA ratio to the low teens in the medium term, driven by operating leverage as a result of rapidly growing volumes and capitalizing the Group's brand strength.
- BG Professional:
  - achieve comparable sales growth slightly above the growth of the market for professional lighting in the medium term, driven by the fast growth of systems and services sales; and
  - achieve gradual increase of adjusted EBITA ratio to the low to mid-teens in the medium term, driven by further performance improvements in North America and an improved product mix through increased sales of LED luminaires, systems and services which have a higher average gross margin.

<sup>25</sup> The Group defines adjusted gross margin as gross margin excluding restructuring costs, acquisition-related charges and other significant incidental charges attributable to cost of sales. See "Operating and Financial Review—Non-IFRS financial measures" for more information on non-IFRS financial measures and reconciliation of adjusted gross margin to gross margin for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

<sup>26</sup> Group defines adjusted EBITA ratio as adjusted EBITA divided by sales (or sales including intersegment in the case of adjusted EBITA ratio of Business Groups). See "Operating and Financial Review—Non-IFRS financial measures" for more information on non-IFRS financial measures and reconciliation of adjusted EBITA for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. Adjusted EBITA ratio outlook reflects the annual royalty payment to Royal Philips under the TMLA.

<sup>27</sup> Group defines net capital expenditures as additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. See "Operating and Financial Review—Non-IFRS financial measures" for more information on non-IFRS financial measures and reconciliation of net capital expenditures for the three month periods ended 31 March 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013.

- BG Home:
  - achieve comparable sales growth above the growth of the consumer luminaires market in the medium term, driven by a turnaround of the consumer luminaires business and double-digit home systems growth; and
  - return to positive adjusted EBITA in the course of 2017.
- BG Other:
  - incur annual unallocated Group costs in line with performance in 2015 for the medium term.

The KPMG and EY reports included in this Prospectus relate only to the Combined Financial Statements and the Condensed Combined Interim Financial Statements, respectively, and do not extend to the financial objectives included in this Prospectus and should not be read to do so.

## **Group Overview**

### ***The Group***

The Group is a global market leader measured by sales in the general lighting industry. It believes that it has a unique position across the lighting value chain with a focus on the general lighting market. The Group's light source product portfolio includes incandescent lamps, halogen lamps, LFLs, CFLs, HID lamps and LED lamps. In addition, the Group offers electronic components, such as electronic ballasts and drivers, as well as complete luminaires for consumers and professional users. The Group also offers innovative, integrated and customized lighting systems and services including light management systems and value-added services such as energy audits, light design and engineering as well as remote monitoring and managed services. The Group's products are used for illumination and visualization in a variety of applications for general lighting, in particular residential, road and street, architectural, office, industrial, retail and hospitality lighting. The Group also produces light sources and systems for special applications, such as projection, cinema, entertainment, city beautification (*i.e.*, dynamic architectural lighting) and horticulture as well as water purification (*e.g.*, disinfection with ultraviolet radiation).

The Group engages in acquisitions, divestments and investments in joint ventures from time to time. The Group is no longer active in the lighting components and automotive lighting businesses after the separation of Royal Philips' combined LED and automotive lighting components businesses into a stand-alone company in 2015. The lighting components and automotive lighting businesses are not reflected in the financial results of the Group or in the business descriptions in this Prospectus.

The Group has a strong track record in innovation and invests heavily in R&D (for the year ended 31 December 2015, 4.9% of sales) to stay at the forefront of technological developments. It has a strong patent portfolio with over 14,000 patent rights, which it believes is more than any of its competitors, and a licensing program with over 600 licensees as of 31 March 2016.





### Organizational structure

The Group's business is organized and managed on a functional basis by technology and end-markets through four operating Business Groups: BG Lamps, BG LED, BG Home and BG Professional. The Business Groups are responsible for the development of their strategy, product portfolio and the production and sourcing of their products. In addition, the Group's commercial organization is structured along four geographical Market Groups to manage its global sales channels: Europe, Americas, Growth Markets and Greater China.

The Market Groups are principally responsible for driving and managing sales, managing customer relationships and delivering the commercial activities of the business across 17 identified markets, covering commercial activities in approximately 180 countries. Moreover, the Group manages certain business on a global basis rather than geographical market basis, including digital projection, licensing programs, entertainment, and certain independently run specialty brands such as Modular and Luceplan (the Global Businesses).

These Business Groups and Market Groups are supported by centralized shared services with respect to, among other functions, legal, finance, human resources, business transformation, strategy and marketing, innovation and operations. Certain of these activities and costs are not reflected in the financial results of the Business Groups, and are described under the caption "Other" in this Prospectus.

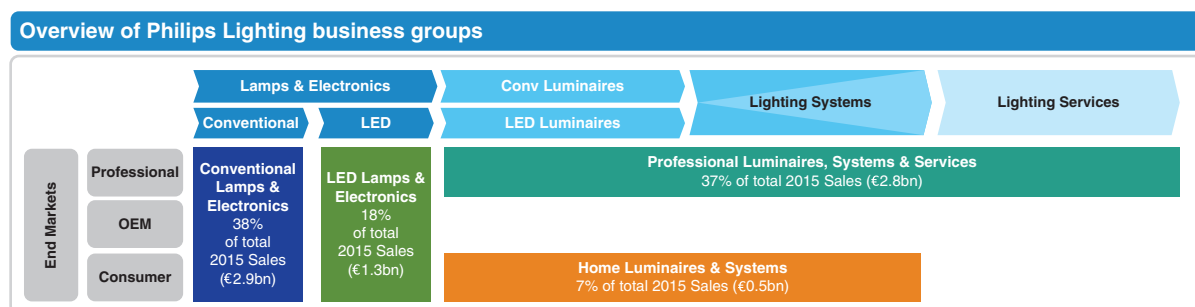
The following table presents the contribution to Group sales of the various Business Groups and Markets Groups for each of the periods indicated. The information relating to the three-month periods ended 31 March 2016 and 2015 has not been audited.

In euros millions	For the three months ended 31 March 2016				For the year ended 31 December					
	2016		2015		2015		2014		2013	
<b>Business Groups</b>										
BG Lamps	615	36.1%	727	42.1%	2,850	38.2%	3,119	44.7%	3,557	49.9%
BG LED	355	20.9%	275	15.9%	1,334	17.9%	958	13.7%	772	10.8%
BG Professional	601	35.3%	610	35.3%	2,757	36.9%	2,420	34.7%	2,308	32.4%
BG Home	124	7.3%	112	6.5%	515	6.9%	482	6.9%	490	6.9%
Other	7	0.4%	3	0.2%	9	0.1%	2	0.0%	2	0.0%
<b>Total</b>	<b>1,702</b>	<b>100%</b>	<b>1,727</b>	<b>100%</b>	<b>7,465</b>	<b>100%</b>	<b>6,981</b>	<b>100%</b>	<b>7,129</b>	<b>100%</b>
<b>Market Groups</b>										
Europe	533	31.3%	561	32.5%	2,290	30.7%	2,311	33.1%	2,297	32.2%
Americas	555	32.6%	538	31.1%	2,380	31.9%	2,156	30.9%	2,223	31.2%
Growth Markets	350	20.6%	369	21.4%	1,717	23.0%	1,450	20.8%	1,469	20.6%
Greater China	136	8.0%	138	8.0%	582	7.8%	624	8.9%	692	9.7%
Global Businesses <sup>1</sup>	128	7.5%	121	7.0%	496	6.6%	440	6.3%	448	6.3%
<b>Total</b>	<b>1,702</b>	<b>100%</b>	<b>1,727</b>	<b>100%</b>	<b>7,465</b>	<b>100%</b>	<b>6,981</b>	<b>100%</b>	<b>7,129</b>	<b>100%</b>

<sup>1</sup> Global Sales businesses reflects certain businesses managed on a global basis rather than geographical market basis, including digital projection, licensing programs, entertainment and the Modular and Luceplan brands.

### Business Groups

The graph below demonstrates the position of the Group's four operating Business Groups across the lighting value chain and the end-markets served by the Business Groups.



### BG Lamps

#### Overview

BG Lamps comprises the Group's conventional lamps and lamp electronics businesses. BG Lamps produces and sells lamps in a wide range of non-LED based technologies such as incandescent, halogen, fluorescent and HID technologies, as well as electronic drivers and electromagnetic ballasts needed to control the lamp current for specific conventional technologies.

BG Lamps' sales for the year ended 31 December 2015 were €2,850 million (2014: €3,119 million; 2013: €3,557 million). Income from operations for BG Lamps for the year ended 31 December 2015 was €403 million, compared to €356 million for the year ended 31 December 2014, an increase of €47 million, or 13.2%. BG Lamps' adjusted EBITA (unaudited) for the year ended 31 December 2015 was €463 million (2014: €506 million; 2013: €601 million). For the three-month period ended 31 March 2016, BG Lamps generated €615 million in sales and its adjusted EBITA (unaudited) was €125 million.

#### Products

BG Lamps sells halogen lamps, CFLi's and incandescent lamps for the consumer market. These lamps are mostly being used for residential applications in homes, but are also being used in hospitality and low-end professional applications. BG Lamps also sells switches for the consumer market in selected countries in Asia. In addition, BG Lamps sells TL lamps, CFLni's, HID lamps and special lighting for the professional market. CFLni's are primarily being used in offices, retail and industrial applications. HID lamps are primarily being used for outdoor street lighting, sport stadiums and in spots for fashion retail stores. Special lighting includes

lamps for a range of special applications, such as theatre and stage lighting, cinema projectors and water purification. Moreover, BG Lamps sells lamp electronics, consisting of drivers and ballasts, predominantly to OEMs who produce luminaires and integrate these electronics into their finished products. BG Lamps also sells drivers to the replacement market, where contractors replace them into existing luminaires for repairs or upgrades. Finally, BG Lamps sells projector lamps and drivers to the projector OEM market and the replacement market.

The Group estimates that for the year ended 31 December 2015 average adjusted gross margin of its conventional lamps products<sup>28</sup> was materially higher than for its LED lamps products.

### **Customers**

Consumer and professional lamps are being used in a wide variety of both residential and professional applications and are bought by consumers, electrical installers and professional end-users. BG Lamps therefore distributes its conventional lamps across a wide range of channels, including via intermediary distributors and wholesalers as well as to large consumer retailers and do-it-yourself stores. Lamp electronics are mainly sold to luminaire manufacturers through direct sales and as replacement products via electrical wholesalers. Projector lamps and drivers are sold to projector OEMs and replacement projector lamps are sold to the replacement market. BG Lamps sells its products throughout the world, with sales operations organized in line with the four Market Groups, except for digital projection lighting, which is run independently.

### **Strategy**

BG Lamps aims to selectively increase its market share and reduce costs to maximize free cash flow. Its strategic priorities include winning share in key segments and markets, managing its industrial footprint, reducing operational costs, become a more flexible and reliable supplier and developing and retaining employees.

## **BG LED**

### **Overview**

BG LED comprises the Group's LED lamps and LED electronics businesses. BG LED sells a wide variety of LED lamps, including spots, bulbs and tubes, to the professional, consumer and OEM channels. These LED lamp products replace existing conventional lamp products, using similar form factors, or offer new form factors specific to LED lamp products. In addition, BG LED sells LED electronic components, consisting of LED drivers and LED modules, to luminaire OEMs for professional luminaire applications in retail, office and outdoor segments. LED drivers regulate the current going through the light source (both conventional and LED) and are optimized for different applications and regional power grids. The LED driver portfolio also offers connected driver-sensor solutions for building and city management systems. LED modules serve as the light source in LED luminaires.

BG LED's sales for the year ended 31 December 2015 were €1,334 million (2014: €958 million; 2013: €772 million). Income from operations for BG LED for the year ended 31 December 2015 was €66 million, compared to €(62) million for the year ended 31 December 2014, an increase of €128 million. BG LED's adjusted EBITA (unaudited) for the year 2015 was €74 million (2014: €14 million; 2013: €(17) million). For the three-month period ended 31 March 2016, BG LED generated €355 million in sales and its adjusted EBITA (unaudited) was €20 million.

### **Products**

The Group believes that it has a relevant portfolio of LED lamps that addresses local market needs with both high volume products and innovative specialty products built on consumer and end-user insights. BG LED sells LED lamps of three primary types: (i) bulbs, including candles and lustres (*i.e.*, a full range of conventional light source replacements in form factors familiar to users); (ii) spots (*i.e.*, a wide range of halogen replacements); and (iii) tubes (*i.e.*, energy saving and long-lasting replacements for fluorescent lamps, such as TL and CFLni, for office, industry and retail applications).

In addition, BG LED sells LED electronics, consisting of LED drivers and LED modules, and believes that its lighting application expertise drives differentiating innovations. The BG LED Electronics portfolio of drivers and modules is organized around three major application types: (i) point—designed for quality of light in retail and office applications; (ii) linear—applications in office and industry, replacing fluorescent products; and (iii) outdoor—applications for public customers.

The Group's R&D expenses in LED lamps and LED electronics grew by 11% per year in the 2013-2015 period. More than one-third of BG LED sales in 2015 were from new products launched in that year.

<sup>28</sup> Including consumer and professional lighting segments.

The Group estimates that its category market shares in the LED lamps and LED electronics markets grew by 1% in 2015.

### **Customers**

Consumer and professional LED lamps are being used in a wide variety of both residential and professional applications and are bought by consumers, electrical installers and professional end-users. BG LED distributes its LED lamps primarily through consumer channels (*e.g.*, retail and DIY stores) and professional channels (*e.g.*, wholesalers, resellers, installers and facility managers). LED electronics are predominantly sold to luminaire manufacturers via the OEM channel and the remainder is sold through professional channels. BG LED sells its products throughout the world, with sales operations organized in line with the four Market Groups.

### **Strategy**

BG LED aims to focus on commercial and technological innovation to outgrow the market. Its strategic priorities include growing consumer and professional lamp sales through effective innovation and marketing, expanding sales of LED electronics via strong account management, increasing supply chain agility at lower costs and improving cost productivity.

### **BG Professional**

#### **Overview**

BG Professional comprises the Group's conventional and LED luminaires, lighting systems and lighting services businesses for professional customers (*i.e.*, businesses and governments). BG Professional has tailored propositions for professional customers across three key segments: the public segment, the office and industry segment, and the retail and hospitality segment. Largest segment of BG Professional is the public segment, followed by the retail and hospitality segment and the office and industry segment.

In addition, BG Professional provides lighting systems to the entertainment and horticulture sector and earns licensing income from the use of patents by other manufacturers.

BG Professional has made several acquisitions in the last decade. Noteworthy are the acquisition of Genlyte, a U.S.-based luminaire manufacturer, in 2008 to strengthen the Group's position in the U.S. market for professional lighting applications (see "Operating and Financial Review—Material Factors Affecting Results of Operations—Business improvement programs"); the acquisition of Indal, a European luminaire manufacturer focused on the public lighting segment, in 2012 to grow its presence in professional outdoor lighting applications; and the acquisition of a 51% interest in GLC, a Saudi Arabian luminaire manufacturer, in 2014 to become a leading lighting player in the largest economy of the Middle East. BG Professional's systems offering was strengthened by the acquisition of Color Kinetics in the United States in 2007 and Dyalite, an Australian company specialized in controls which are increasingly used in systems, in 2009.

Following the economic and financial crises which had a significant negative impact on the performance of BG Professional in North America beginning in 2008, BG Professional in North America implemented from 2012 to 2014 a major business transformation program, which included the integration of individual businesses, footprint optimization, supply base consolidation, portfolio and brand rationalization, go-to-market approach implementation (including consolidation of the agent network as a key component), IT consolidation and productivity improvements, among other measures. In 2015, BG Professional in North America focused on operational improvements, which included improving agent effectiveness, gaining share of wallet with certain distributors that collectively represent 20-30% of the professional luminaires market, scaling end-user sales for systems and services and committing to end-to-end excellence by, among other things, improving service reliability. This business transformation program has resulted in a reduction of the number of: (i) decentralized businesses from 30 in 2012 to 1 in 2015, (ii) operational manufacturing plants from 38 in 2012 to 11 in 2015, (iii) suppliers by 63% in the 2012-2015 period, and (iv) stock-keeping units by a factor 10 in the 2012-2015 period. Based on internal analysis, indicators of the Group's turnaround in North America include an increase of its net promoter score lead compared to its nearest competitor to +3 in 2015 (2013: -8; 2014: -10), growth of its systems and services order pipeline<sup>29</sup> of approximately 99% between January 2015 and January 2016 and an increase in its estimated backlog by approximately 38% between year-end 2014 and year-end 2015. BG Professional in North America established momentum and demonstrated a positive trend in comparable sales in the year ended 31 December 2015, with comparable sales growth reaching approximately break-even for the fourth quarter of 2015 and turning positive in the first quarter of 2016.

<sup>29</sup> Defined as pipeline from Salesforce.com, for systems and services, including all projects from 2015 (tracked monthly) that are open (quality, develop, propose, order promised) or closed/won (order booked or sales recognized).

BG Professional's sales for the year ended 31 December 2015 were €2,757 million (2014: €2,420 million; 2013: €2,308 million). Income from operations for BG Professional for the year ended 31 December 2015 was €14 million, compared to a loss from operations of €(56) million for the year ended 31 December 2014, an increase of €70 million. BG Professional's adjusted EBITA (unaudited) for the year ended 31 December 2015 was €150 million (2014: €102 million; 2013: €51 million). For the three-month period ended 31 March 2016, BG Professional generated €601 million in sales and its adjusted EBITA (unaudited) was €6 million.

### **Products and services**

BG Professional's product portfolio primarily includes conventional and LED luminaires (or fixtures), used in offices or commercial buildings, shops, the hospitality sector (*e.g.*, hotels, bars and restaurants), the industrial sector (*e.g.*, warehouses and factories) and outdoor (*e.g.*, street lighting, highways and tunnels, parking lots, sports venues, monuments and buildings). Historically, sales of BG Professional experienced a rapid shift from conventional luminaires to LED luminaires as a result of the transition from conventional to LED lighting. The Group believes its current position in LED luminaires provides a strong platform for systems and services development. The Group first recorded lighting systems and services sales in 2014, and by 2015 these accounted for more than 10% of the sales of BG Professional. The remaining sales were roughly evenly divided between conventional luminaires and LED luminaires. Consequently, combined sales of systems and services and LED luminaires accounted for more than 50% of the sales of BG Professional in 2015. LED luminaires provide additional functionalities for end-users and enable the Group to take advantage of global LED board and driver platforms, which the Group believes has helped to achieve higher adjusted gross margins for LED as compared to conventional luminaires. The Group estimates that for the year ended 31 December 2015 average gross margin<sup>30</sup> of LED luminaires was materially higher than for conventional luminaires and was higher in Europe than in other regions due to increased LED penetration and higher adoption of LED board and driver platforms. The Group believes that the transition from lower margin conventional luminaires to higher margin LED luminaires offsets the transition from higher margin conventional lamps to lower margin LED lamps.

BG Professional also offers luminaires with controls and software as lighting systems. Lighting systems provide customers with an enhanced lighting personalization, energy efficiency, sustainability and operational cost reduction via the combination of energy efficient light sources and digital controls. Connected lighting systems combine intelligent illumination with data and connectivity, enabling two-way data communication. In a connected lighting system, every light point is networked together and digitally controlled, creating a more intelligent, flexible, efficient and dynamic lighting system. Connected lighting systems can integrate with other systems in a city or an office building. In a city, lighting can support city service infrastructure like security surveillance and traffic. In an office building, it can gather data about occupancy and enable facility managers to optimize services like climate control or cleaning. BG Professional has, for example, commercialized connected lighting systems for road and street lighting (CityTouch), for office lighting (Envision) and for food and large retail sub-segments (indoor positioning system). As of 31 December 2015, the Group estimates that BG Professional had 530 CityTouch implementations in 33 countries.

BG Professional builds on its large installed base of light points (*i.e.*, the sum of all light points installed by the Group globally) and global scale to offer lighting services to its customers to capture additional value and recurring revenues. Services are categorized in professional services, lifecycle services and managed services. Professional services include services like auditing a customer's lighting installation or consulting customers on potential improvements. Lifecycle services include the maintenance or asset management, including spare part management or small retrofits, of an existing lighting installation. Managed services cover the full management of a lighting installation through a performance-based contract such as an energy performance contract or so-called "Light-as-a-Service" contracts (*i.e.*, contracts where customers pay for the provision of light to their premises).

Most products of BG Professional are sold under the Philips brand. In some cases, in particular in the United States, BG Professional also sells under sub-brands like Philips Color Kinetics, Philips Lightolier, Philips Day-Brite and Philips Hadco, to cater for specific segments of the general lighting market.

Examples of projects in 2015 include the following: (i) the global strategic alliance between the Group and Cisco combining the Group's connected office lighting system with Cisco's network technology, to increase energy efficiency, provide data to optimize user comfort and improve the office environment; (ii) the Philips CityTouch lighting system in Los Angeles, which involves the Group's management system using wireless and cloud-based technologies to control street lighting; (iii) the installation of 2.5 kilometers of LED lighting by Carrefour in Lille, France, using light to transmit a location signal to a shopper's smartphone, triggering a consumer engagement app to provide location-based product navigation and promotion services to Carrefour's

<sup>30</sup> Gross margin including systems and services and excluding entertainment and licencing sales; GLC acquired in 2014 is included in the gross margin as of 2015.



customers, such as helping them to navigate and find promotions across the 7,800 m<sup>2</sup> shop floor and to reduce the total lighting-based electricity consumption; and (iv) the connected LED lighting system provided by the Group for the New NY Bridge in New York, combining roadway and architectural lighting. This system will feature remotely programmed lights that produce dynamic colorful effects and use cloud-based monitoring and management systems.

### **Customers**

BG Professional sells its products, systems and services either indirectly, through wholesalers (called distributors in North America), agents or value-added partners, or directly to end-users. Indirect sales represent the large majority of sales. Agents are independent parties with exclusive rights to sell a manufacturer's products in an assigned territory and are compensated on a commission basis. Agents are often dedicated to a single manufacturer, such as the Group, for a given business or segment. Due to the size of their selling organizations and long-standing relationships with specifiers<sup>31</sup>, agents are an important sales channel in particularly North America and influenced 60–70% of the Professional luminaires market for the year ended 31 December 2015. Value-added partners are parties selected and trained by the Group to sell its products and provide specialized expertise and local support. (See also “—Sales and Marketing—Go-to-market-approach”).

BG Professional sells its systems and services directly to certain large end-users in the three key market segments: public, office and industry, and retail and hospitality. In the public segment, typical end-users are municipalities, road/port/airport authorities or governments needing lighting for roads and streets, tunnels, arenas and sports facilities, parks and plazas, bridges, monuments and façades, municipal buildings, education buildings and airports. In the office and industry segment, typical end-users are office building owners, logistics and manufacturing companies and hospitals needing lighting for offices, warehouses, manufacturing, parking garages and healthcare facilities. In the retail and hospitality segment, typical end-users are large retail chains, petroleum companies, retail banks and hotel chains needing lighting for food and large retail stores, fashion stores, petrol stations and convenience stores, retail bank outlets, hotels and restaurants. BG Professional sells its products and services throughout the world, with sales operations organized in line with the four Market Groups, except for entertainment lighting, horticulture lighting and licensing, which are run independently.

### **Strategy**

BG Professional's strategic aim is to lead the transition to LED and systems and services. Its strategic priorities include consolidating its leading position in LED technologies, scaling up its services proposition, further transforming its North American business and redesigning the integral supply chain according to customer needs.

### **BG Home**

#### **Overview**

BG Home comprises the Group's consumer luminaires and home systems business. BG Home produces and sells functional and decorative consumer luminaires, connected lighting systems and premium luminaires, consisting of the Modular and Luceplan brands.

BG Home undertook beginning in 2014 an extensive portfolio pruning exercise in its consumer luminaires business in Europe, seeking to reduce R&D costs, optimize manufacturing fixed costs and rationalize its European warehouse footprint in order to improve profitability. As a result, the total number of stock-keeping units globally decreased by approximately 47% in the 2013-2015 period. This exercise contributed to a decline in the total sales of BG Home, but in an increase in sales per (higher margin) stock-keeping unit globally of approximately 69% in the 2013-2015 period. The Group has also implemented restructuring measures in its consumer luminaires business in China, including with respect to its local sales channels and closure of an operational manufacturing plant.

BG Home's sales for the year ended 31 December 2015 were €515 million (2014: €482 million; 2013: €490 million). Income from operations for BG Home for the year ended 31 December 2015 was €(73) million, compared to €(70) million for the year ended 31 December 2014, a decrease of €3 million. BG Home's adjusted EBITA (unaudited) for the year ended 31 December 2015 was €(57) million (2014: €(46) million; 2013: €(57) million). For the three-month period ended 31 March 2016, BG Home generated €124 million in sales and its adjusted EBITA (unaudited) was €(12) million.

### **Products**

BG Home's portfolio of consumer luminaires products consist of functional and decorative luminaires such as spot lamps, ceiling and wall lights, outdoor lights and desk lights. For the development of consumer

<sup>31</sup> Companies that are partly or wholly involved in the prescription of lighting products.

luminaires BG Home builds on the Group's strong knowledge in LED and lighting applications complemented by extensive qualitative and quantitative consumer research. For example, BG Home developed a desk light for the Chinese market, which provides high quality lighting for studying children while addressing parents' concerns for their eyesight.

The Modular portfolio consists of premium luminaires for the architectural lighting subsector and are predominantly used for hospitality or high-end residential projects. Modular luminaires are primarily sold in Europe. The Luceplan portfolio consists of premium luminaires with a focus on aesthetic design and are primarily sold in Europe.

The Group believes that it is the leader in the development of smart home lighting. In 2012, BG Home introduced Philips Hue, the world's first commercially available web-enabled LED home lighting system, which enables users to control light wirelessly with an app on their smartphone or tablet and to personalize their lighting preferences and needs. BG Home's home systems portfolio now consists of the Philips Hue product family of connected lighting systems, including wireless connected lamps, luminaires and switches. Philips Hue is known for its ease of installation and intuitive user-interface. It is an open system with an active developer community and compelling lighting applications. The Group operates a smart home developer program and network with approximately 16,000 registered developers and over 600 third party apps as of 31 March 2016. The Group believes that this network is expected to accelerate the penetration of Philips Hue.

The Group's sales in home systems grew by double-digits in 2015, though this business represented a small part of BG Home's sales in 2015. Gross margins on home systems products were on average materially higher than those on consumer luminaires.

The Group also launched LifeLight in 2015, a solar-powered LED lighting range for homes in Kenya and other African countries. The range eliminates the need to use kerosene lamps in homes in off-grid areas, and is expected to also increase productivity and community life by enabling activities to continue after dark.

### ***Customers***

For the year ended 31 December 2015, BG Home sold approximately 85% of its consumer luminaires through consumer channels (*e.g.*, retail stores, including online platforms, DIY and specialist stores, and Philips branded specialist stores in selected markets), and the remainder through professional channels. Home systems are sold through the same channels as well as through consumer electronics retail stores. BG Home sells its products throughout the world, with sales operations organized in line with the four Market Groups. Home systems are predominantly sold in Europe and North America.

### ***Strategy***

BG Home aims to realize profitable growth by driving the transition to LED luminaires and connected lighting. Its strategic priorities include further developing the required capabilities to lead this transition, growing its home systems business, driving profitable growth in LED luminaires in Asia and North America, turning around the profitability of consumer luminaires in Europe and creating leaner R&D and operations functions.

## **Research and Development**

### ***R&D activities***

As one of the leading established global players in the lighting industry, the Group has invested significantly in R&D for conventional lighting products and the rapidly growing market of LED lighting products, as well as the emerging market for connected lighting systems.

In conventional lighting products, the Group believes that it is the market leader and aims to defend its market position by continuously improving cost and value of its conventional lighting product portfolio. This is being achieved by continuously optimizing its supply base and operations, as well as by optimizing its product portfolio.

Based on the expected higher demand for LED lighting products in the future, the Group has been proactively shifting R&D resources and capabilities from conventional lighting products to LED lighting products to maintain its leadership position in lighting. The Group believes that it has become the market leader in LED lighting products by, among other things, taking advantage of synergies between conventional and LED competencies in the field of electronics, miniaturization, cost optimization and through its extensive lighting application knowledge. Furthermore, the Group believes that additional large innovation opportunities are available with respect to LED lighting products to further reduce energy consumption and costs.

Examples of important innovative LED lighting product launches include:

- The Philips InstantFit family of LED-based T8 tubes (TLED), launched in 2013—LED tubes designed for direct installation into fluorescent fixtures without requiring removal of the fluorescent ballast;
- The Philips LED Deco Classic filament bulb, launched in 2015—available in eight different designs, the Philips LED Deco Classic is an LED bulb targeted to customers with an interest in energy-efficient LED technology with a traditional filament bulb design;
- The Philips Scene Switch LED bulb, launched in 2015—a two-in-one LED bulb that enables the user to adjust between two color settings by toggling the power switch;
- LED luminaires for sports-lighting applications, launched in 2014; which can be used for fixed sports-lighting configurations, as well as pre-programmed special lighting effects;
- The Philips SimpleSet wireless programming technology, launched in 2014—a technology which uses near-field communication technology to program driver current and lumen levels without the driver being powered or wired;
- The Philips Xitanium Point & Linear drivers, launched in 2014—drivers which eliminate visible flicker and stroboscopic lighting effects that otherwise impact smartphone/security cameras and barcode scanners;
- The Philips PremiumWhite Spot Light modules, launched in 2014—modules which offers high light quality and energy efficiency, enabling retailers to transition from conventional ceramic discharge metal-halide technology to LED; and
- The Philips Xitanium SR LED drivers, launched in 2015—drivers which provide a standard digital interface, power reporting capabilities and dim-to-off settings, and can be applied in a wide range of luminaires and in a wide variety of connected lighting systems.

In addition, the Group focuses its innovation efforts on developing new digital connected lighting applications. The Group believes that it is the innovation frontrunner in connected lighting systems. The Group believes that its strong foundation in the development of LED light sources and luminaires will drive innovative opportunities in the field of connected lighting systems. These opportunities will result in systems and services that support further energy reduction and in lighting applications that can create an optimal user experience by adapting to personal preferences or working conditions. Via connected lighting systems, the Group specializes in lighting related applications as part of the Internet of Things. The Group's connected lighting systems can generate and transport data. Based on this data, the Group can further adapt its products towards customer requirements and can extend the functionality of its lighting systems (*e.g.*, by automatic behavior) and can address areas outside the direct lighting domain (*e.g.*, by combining lighting-based indoor positioning with retail analytics for an improved shopping experience). The Group believes that it has developed strong know-how in lighting applications and has demonstrated consistent design leadership in lighting, as evidenced by the 35 design awards received by the Group in 2015 for 19 of its products, most notably for the LumiStreet LED Road Light (three awards including the Red dot award: best of the best), The Hue Go (four awards) and the ArenaVision LED (three awards).

Examples of innovative connected lighting system launches include:

- CityTouch for public clients: a wireless lighting system for connected outdoor lighting supporting remote management of light poles and asset management applications with strong network reliability and fully automated commissioning (2011);
- Philips HUE: a personal wireless lighting system for usage at home with local control via smartphone and connected to the Internet for remote control. The system is based on open communication standards and interfaces that allow partners and the app-developers community to integrate and develop new applications for the Hue system (2012). In 2014, Philips Hue was named the second most innovative company globally in Internet of Things by Fast Company.
- Integrated lighting systems for offices: connected lighting systems for offices supporting installers (*e.g.*, through highly reduced installation times and easy commissioning), users (*e.g.*, through personal control of the lights) and building management (*e.g.*, by providing input for maintenance flows) (2014); and
- Indoor positioning lighting systems for retail stores: intelligent LED in-store lighting systems with lights that can communicate with shoppers' smartphones via so-called Visible Light Communication to provide them with targeted offers and information based on their location (2015).

The Group believes that sustainable economic value is created through continuous innovation and that continuous investments in R&D are fundamental to its current and future success. The table below sets forth the Group's R&D expenses for the periods indicated:

	<b>For the year ended 31 December</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Research and development expenses (in EUR millions) . . .	366	395	375
As a percentage of sales . . . . .	4.9%	5.7%	5.3%

### **R&D organization**

The Group's R&D activities are organized globally with activities in various locations. The Group has established four global hubs. Each global hub has its specific focus areas and capabilities:

- Eindhoven (the Netherlands): LED lighting products, lighting systems, services and digital applications;
- Burlington (United States): lighting systems and digital applications;
- Shanghai (China): conventional lamps and LED lighting products; and
- Bangalore (India): software.

Next to these four global hubs, the Group has approximately 25 sites with specific capabilities and approximately 30 small sites (*i.e.*, with less than ten R&D FTEs) for local support to customers and for implementing specific local requirements. As of 31 March 2016, the Group employed approximately 2,750 FTEs in the R&D function, approximately 70% of which were based at the global hubs.

The Group has dedicated R&D activities organized inside each of the four operating Business Groups to support them in developing and realizing their near-term (*i.e.*, one to two years) product roadmaps. In addition, the Group has centrally organized R&D activities to develop longer-term innovations with a cross-businesses approach covering various innovation areas, including LED lighting products, connected lighting systems, services and lighting applications. The centralized R&D activities make use of the "open innovation" approach in R&D by combining insight on lighting trends with actively seeking innovative concepts and cooperation partners for products or technological solutions outside the company. These activities allow the Group to obtain information about relevant technologies at an early stage, which makes it possible to bring innovative products to the market.

Moreover, the Group's R&D function has established a standards and regulations team that proactively drives and influences existing and upcoming digital lighting-related standards and strives to address and influence regulatory changes. Furthermore, the R&D function has a ventures team that helps the Group explore new directions. The R&D function also seeks early protection of its innovations through patents and other intellectual properties and its design team supports the Business Groups in all design aspects, such as product designs and user interface designs. Finally, the R&D function has an "idea to market" excellence team that strives to increase the innovation development speed by developing and improving standardized R&D processes and tools for, among other things, product development, portfolio management and product lifecycle management.

### **Sales and Marketing**

The Group's commercial organization is structured along four geographical Market Groups to manage its global sales channels: Europe (2015: 30.7% of sales of all MGs), Americas (2015: 31.9% of sales of all MGs), Growth Markets (2015: 23.0% of sales of all MGs) and Greater China (2015: 7.8% of sales of all MGs)\*. The Market Groups are responsible for driving and managing sales, gross margin and market specific selling expenses across customers and Business Groups in each of the markets. In addition, the Market Groups centrally manage aspects of the supply chain process, pricing, international key account management and business transformation projects. The Market Groups' sales teams are organized in three customer centric segments (*i.e.*, professionals, consumers and OEMs) to maximize channel synergies.

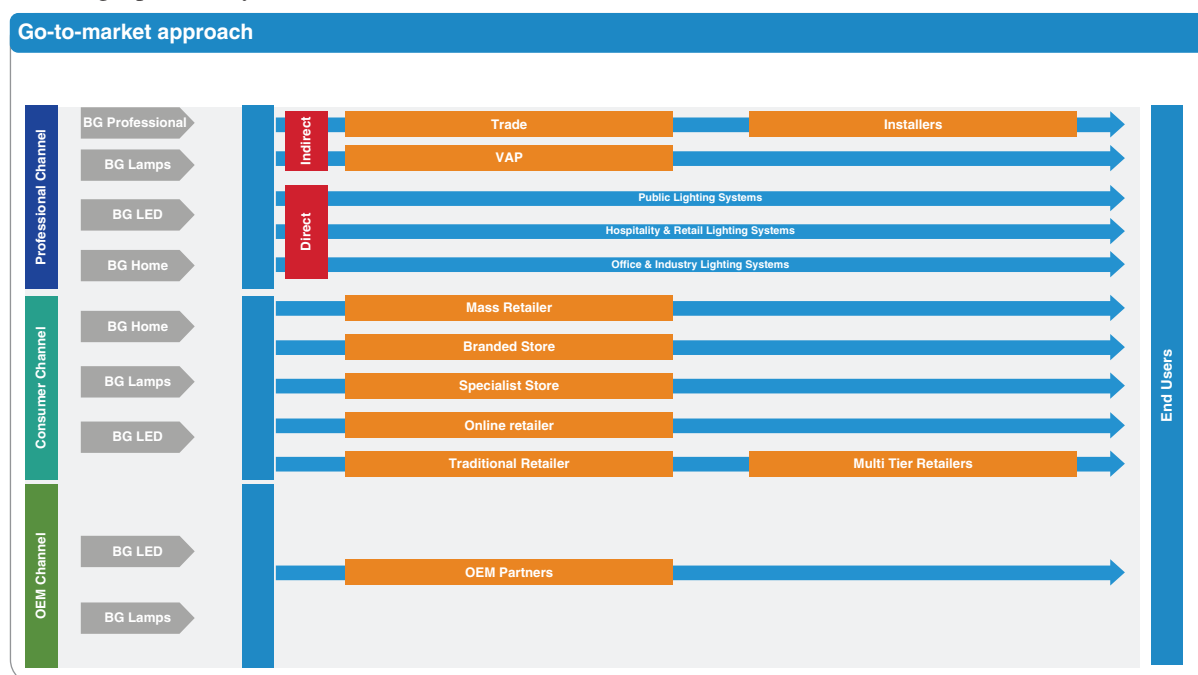
### **Go-to-market approach**

The Group's go-to-market approach involves activities that define how the Group reaches its customers to deliver its products and services. The Group's go-to-market approach is important to continue serving its clients and to achieve a competitive advantage and growth.

The Group has established a common go-to-market blueprint defined at Group level which can be adapted to local markets to align with that market's characteristics and end-user needs. The four Market Groups (*i.e.*, Europe, Americas, Growth Markets and Greater China) are responsible for managing the go-to-market strategy in local markets. The Market Groups' sales teams are organized in three customer channels to maximize synergies

(\*) Sales percentages do not add up to 100%. See "—Group Overview—Organizational Structure" for further information on the contribution to Group sales of the various Market Groups, including the contribution of Global Businesses.

across the BGs: professionals, consumers and OEMs. Distribution of the Group's products, systems and services to end-users takes place either through direct sales or channel partners (*i.e.*, organizations involved in the process of making a product, system or service available to end-users).



The channel used and the means by which a product reaches the end-user depends on the type of product being sold and the type of customer purchasing it. As a result, this differs between the BGs. For example, conventional and LED lamps in the consumer channel are sold through retail stores' shelf space. In the professional channel, conventional and LED luminaires are mostly sold via distributors and value-added partners. Value-added partners are parties selected and trained by the Group to sell its products and who provide specialized expertise and local support to customers. This expertise can include design, installation and integration of technologies to offer a customized solution to customers and provide on-going support. The OEM channel mainly relates to electronics being sold to luminaire manufactures, including internal sales and sales to competitors like Acuity Brands, Cooper Industries and Cree.

In addition, a further distinction in market approaches can be made per region. In particular, in North America, products are being sold to end-users through agents. Agents are independent parties with exclusive rights to sell a manufacturer's products in an assigned territory and are compensated on a commission basis. Agents are often dedicated to a single manufacturer, such as the Group, for a given business or segment. Due to the size of their selling organizations and long-standing relationships with specifiers, agents are an important sales channel in North America where they influenced 60–70% of the Professional luminaires market in the year ended 31 December 2015. Moreover, in some countries, including Belgium and China, the Group has branded stores or franchise stores that sell directly to customers.

### Online sales

The use of Internet as a means to allow customers to research, compare and purchase products online is growing in importance for the lighting industry. Online sales are an attractive distribution, electronic ordering and information channel due to the clear advantages they offer compared to physical channels, including:

- lower marketing costs and higher conversion rate (*i.e.*, the percentage of visitors who take the desired action);
- broader access to customers at lower cost of sales and ability to offer a bigger product selection due to no limitations to any physical barriers and availability 24 hours a day;
- enhanced customer service through better information management (*i.e.*, allowing the delivery of completed and correct information directly to the customers); and
- lower inventory requirements due to the opportunity to centralize inventory in a single location rather than spreading it out in numerous retail store locations.

Online sales are an important element in the Group's multi-channel approach to market. For the year ended 31 December 2015, 7.6% of the Group's total sales to consumers and 15.8% of its total sales to professionals took place online.



## **Marketing**

The Group's key marketing initiatives aim at continuously strengthening the Group's leading brand position, highlighting how the Group creates value for consumers and businesses on a personal and societal level and helping customers make the right decision by disseminating accurate and relevant information.

Marketing activities differ depending on the end-goal to be achieved but ultimately all serve the three aforementioned goals. The Group's marketing teams run integrated marketing campaigns that align the way the Group engages customers. These campaigns often involve a mix of advertising (digital and non-digital), retail category management, business-to-business ("B2B") value marketing, events and tradeshow participation, direct marketing and public relations. The Group closely tracks and manages marketing execution through return on investment analytics tools to continuously optimize its outreach to customers and measure the return-on-investment of its marketing activities.

In 2015, the Group ran a number of global integrated marketing campaigns focused on key product areas of the business, including (i) a global consumer LED campaign aimed at stimulating LED adoption by mainstream consumers, (ii) a demand generation campaign for Hue personal wireless lighting targeted at early adopter audiences, and (iii) a B2B campaign focused on promoting LED, systems and services and aimed at creating a compelling customer value added promise across the B2B product offering.

## **Customers**

The Group has strong positions and long-standing relations with key customers globally in all Business Groups. The Group has a well-balanced and diversified customer base with limited customer concentration, as no customer accounted for more than 5% of the Group's sales, and the Group's top ten customers accounted for only approximately 21% of sales for the year ended 31 December 2015.

Approximately 75% of the Group's sales for the year ended 31 December 2015 across all Business Groups were through to professional customer channels<sup>32</sup> compared to 25% through retail consumer channels. The Group's international customers are wholesale organizations, retailers and professional end-users. The contractual arrangements with international key wholesaler and retailer customers are mostly international services or rebate agreements. These international agreements generally provide for performance related incentives or rebates and typically do not contain concrete sale and purchase terms, which are agreed upon at a national level between both parties' local businesses. However, occasionally in the retail and more so in the professional end-user channel, customers prefer to agree on both the incentive as well as the sales and purchase terms in one central international agreement. Volume commitments are generally not agreed. The framework agreements at Group-level are typically entered into for a medium term period of one to three years with automatic one-year renewal terms unless cancelled by one of the parties.

## **Production**

The nature and need for manufacturing plants differs between the technologies used in the various lighting products offered by the Group and depends on their historical manufacturing footprint, the capital-intensive nature of producing certain products and the extent to which certain of the Group's businesses elect to outsource production to third parties. In light of the transition of the lighting industry from conventional lighting technologies to LED lighting technologies, the Group is adjusting its production model accordingly. The Group pursues an "asset-light" outsourcing production strategy with respect to the production of LED lamps pursuant to which it relies on suppliers to produce products, parts, components and services. In 2015, the five largest suppliers accounted for approximately 21% of the total bill-of-material costs and approximately 11% of the total costs of indirect materials and services.

Typically, products sold by BG Professional are assembled in-house, a process that involves assembling luminaires consisting of metal and plastic parts as well as adding optics for reflection and diffusion. The mass production of conventional lamps at the Group's operational manufacturing plants typically involves glass melting and adding metal parts in, largely, mechanized production lines. The Group's operational manufacturing plants for conventional and LED electronics have production lines where electronic components are mounted on printed circuit boards.

The Group has significantly reduced the number of operational manufacturing plants and plans to further reduce this number in the future to reflect trends in demand. On 31 December 2015, the Group had 61 operational manufacturing plants in 22 countries (2011: 77 plants). Four of these plants are multi-BG plants, meaning that they also produce lighting products for other BGs to take advantage of scale benefits. 22 operational manufacturing plants produce lighting products for BG Lamps and BG LED (2011: 31 plants); 35 operational manufacturing plants produce lighting products for BG Professional (2011: 41 plants); and four

<sup>32</sup> Including OEMs.

operational manufacturing plants produce lighting products for BG Home (2011: 5 plants). On 31 December 2015, 16 of the Group's operational manufacturing plants were based in North America (2011: 32 plants), 24 operational manufacturing plants were based in Europe (2011: 27 plants) and 21 operational manufacturing plants were based elsewhere (2011: 18 plants).

The multi-BG plants are located in Malu (China), Tijuana (Mexico), Varginha (Brazil) and Pila (Poland). The operational manufacturing plant in China produces lighting products for BG Lamps and BG Professional. The operational manufacturing plant in Mexico produces lighting products for BG Lamps and BG LED. The operational manufacturing plant in Brazil produces lighting products for BG Lamps and BG Professional. The operational manufacturing plant in Poland produces lighting products for BG Lamps, BG LED and BG Home.

On 31 December 2015, the Group had 120 distribution centers globally to distribute its products to its customers. The Group's main distributions hubs are in Paris (France), Eindhoven (the Netherlands), Pila (Poland), Mountain Top (United States), Memphis (United States), Ontario (United States), Shanghai (China), Shenzhen (China), Chengdu (China) and in each country of the Growth Markets. In 2015, the Group shipped its products to approximately 25,000 locations across 125 countries and processed 12 million order lines.

As a result of adjustments in its production model towards an "asset-light" outsourcing production model, gross capital expenditures as a percentage of sales at Group level declined in the 2013-2015 period. As a result, gross capital expenditures were below depreciation and amortization levels in the 2013-2015 period. The Group expects that gross capital expenditures in relation to LED, systems and services will continue to increase.

	<u>For the year ended 31 December</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Gross capital expenditures as a percentage of sales<sup>33</sup></b> . . .	1.8%	2.3%	2.8%
BG Lamps . . . . .	1.1%	1.1%	1.4%
BG LED . . . . .	1.8%	2.6%	3.5% <sup>34</sup>
BG Professional . . . . .	1.9%	1.6%	2.7% <sup>35</sup>
BG Home . . . . .	2.7%	1.9%	1.4%
<b>Gross capital expenditures split</b>			
% in relation to intangible assets . . . . .	27.9%	31.9%	19.3%
% in relation to tangible assets . . . . .	72.1%	68.1%	80.7%

#### *BG Lamps*

As of 31 December 2015, BG Lamps had 21 operational manufacturing plants. A number of the operational manufacturing plants are electronics manufacturing plants that provide BG Lamps and external customers with components, like wires, powder, burners, and caps for lamp manufacturing.

BG Lamps' operational manufacturing plants are spread around the world in line with demand from local markets. BG Lamps products, including TL, HID and the majority of lamp electronics, require highly automated and capital intensive production. BG Lamps produces in-house through its own manufacturing plants in the United States and Europe, and outsources the production of its less automated production items, including selected CFLi, halogen, switches and lamp electronics (except for electromagnetic ballasts) to Asia.

Given the decline in conventional lamp sales volumes, the Group is proportionally reducing the BG Lamps conventional lamps manufacturing footprint and associated cost base. BG Lamps is rightsizing production requirements in line with market demand and concentrating part of the production to more efficient manufacturing plants to maintain scale and cost efficiency. In addition, outsourcing options are further explored. As a result, the Group has reduced the number of operational manufacturing plants for conventional lamps from 45 in 2008 to 21 as of 31 December 2015. The Group believes that it will be able to continue the reduction of its conventional lamps manufacturing footprint should this be required in the context of an accelerated market decline or to maintain profitability and cash flow. In 2015 (Surabaya plant) and 2016 (Bangpoo and Terneuzen plants), the Group has flexibly brought forward closures of operational manufacturing plants in view of market conditions. See "Operating and Financial Review—Material Factors Affecting Results of Operations—Restructuring Costs" for more information.

#### *BG LED*

On 31 December 2015, BG LED products were produced in three operational manufacturing plants. Almost all of the Group's LED lamp production is outsourced, except for a relatively small proportion that is kept in-house for strategic reasons to reduce lead times and to take advantage of the Group's conventional lamps

<sup>33</sup> Including intersegment sales.

<sup>34</sup> Higher gross capital expenditures in 2013 as a result of €11 million investment in OLED.

<sup>35</sup> Higher gross capital expenditures as a result of €18 million investment in a new factory for BG Professional.

infrastructure to manufacture glass LED bulbs. The manufacturing of LED lamps is mainly outsourced to a number of large lighting suppliers in China who are able to step-up capacity for mass production quickly. The Group believes that economies of scale and efficiency improvements at these suppliers effectively drive down production costs. Savings in procurement costs are generated by design innovations. In 2015, over one-third of BG LED sales was attributable to products that have been available on the market for less than one year. The Group has historically demonstrated ability to grow margins for its LED products, with an adjusted gross margin ratio for both LED lamp products and LED electronic products increasing from 2013 to 2015 as decreases in cost price levels more than offset decreases in sales price levels.

BG LED produces LED electronics at multi-BG sites including in Tijuana (Mexico) and Pila (Poland). BG LED also has a dedicated site in Collierville (United States) for LED electronics. In addition, the Group estimates that in 2015 around one-third of its LED electronics production was outsourced to third party suppliers. The LED electronics are mainly sold in the region where the assembly takes place to align to local needs and to maintain rapid supply times to customers.

The Group believes that the pace of innovation in LED technology is fast, and that product engineering is an important aspect to play an active role within LED. BG LED therefore works with a limited number of LED suppliers to ensure product quality and to manage production costs. BG LED is highly involved in the product engineering process and initiates product innovations, product improvements and cost reducing developments with these suppliers. The Group believes that LED electronics are subject to strict norms and regulations, and require more intense design and precise manufacturing efforts for product and application usages. The production of LED electronics is therefore mostly kept in-house, also to be more flexible towards individual customers.

#### *BG Professional*

As of 31 December 2015, BG Professional had 35 operational manufacturing plants, of which 11 were located in Europe, 15 in Americas, six in Growth Markets and three in China. This relatively substantial number of operational manufacturing plants is the result of manufacturing plants acquired as part of the Group's past acquisitions of the Indal and Genlyte businesses and the substantial volume of products manufactured within BG Professional.

The operational manufacturing plants are spread across each Market Group with manufacturing locations linked to sales activity. BG Professional largely assembles its conventional and LED luminaires and lighting systems in-house. The production of commoditized products is partly outsourced to Asia.

BG Professional's industrial footprint structure is set up to offer customers low variety/relatively high volume products and high variety (customized)/relatively low volume products and systems. In order to establish a more competitive footprint, capable of supporting LED luminaires and systems, a number of plants were divested (four), closed (six) or downsized (one) between the years 2012 and 2015. In general, production moved towards lower cost countries such as Mexico and Eastern Europe, in particular for low variety/relatively high volume products, while the high variety (customized)/relatively low volume products are still produced in Western Europe and North America. In addition, as a result of the joint venture of the Group with GLC, BG Professional has four operational manufacturing plants in the Middle East region.

#### *BG Home*

As of 31 December 2015, BG Home had four operational manufacturing plants. The operational manufacturing plants are located in Roeselare (Belgium) for the brand Modular, Milan (Italy) for the brand Luceplan, Pila (Poland) and Shenzhen (China). The Modular and Luceplan plants are dedicated to these brands and are managed largely on a standalone basis. At the multi-BG plant in Poland, products for home systems are packaged and consumer luminaires are assembled to reduce lead times to Europe and to reduce inventory obsolescence, as well as adapting to the shorter production life cycles. BG Home sources highly commoditized products (such as indoor spots) mostly from third parties in China. The Group also has a relatively large in-house assembly operation in China that predominantly focuses on decorative products.

### **Property, Plants and Equipment**

The following table provides an overview of the Group's material owned and leased properties as of the date of this Prospectus. There are no major encumbrances on any of these properties. The material properties are grouped in three categories: (i) operational manufacturing plants; (ii) distribution centers; and (iii) other properties, which consist of manufacturing plants that are no longer operational, but that represent a material financial asset.

### **Operational manufacturing plants**

<b>Country</b>	<b>City</b>	<b>Principal use</b>	<b>Size (m<sup>2</sup>)</b>	<b>Owned/leased</b>
Argentina	Buenos Aires	Professional luminaires	350	Leased
Belgium	Turnhout	Conventional lamps	78,595	Land leased/ Building owned
Brazil	Varghina	Electronics	5,500	Owned
China	Chengdu	Professional luminaires	7,800	Land leased/ Building owned
China	Shanghai/Malu	Conventional lamps	47,249	Land leased/ Building owned
China	Shenzhen	Consumer luminaires	40,580	Land leased/ Building owned
Hungary	Tamasi	Professional luminaires	11,633	Owned
India	Vadodara	Conventional lamps	28,174	Owned
Mexico	Tijuana	LED lamps and electronics	7,500	Leased
Mexico	Camargo	Professional luminaires	17,280	Owned
Mexico	Monterrey	Professional luminaires	34,293	Leased
Poland	Pila	Electronics	11,703	Land leased/ Building owned
Poland	Pila	Conventional and LED lamps	157,900	Land leased/ Building owned
Poland	Ketrzyn	Professional luminaires	15,809	Owned
Saudi Arabia	Riyadh	Professional luminaires	6,331	Land leased/ Building owned
Saudi Arabia	Riyadh	Professional luminaires	10,499	Land leased/ Building owned
Saudi Arabia	Riyadh	Professional luminaires	6,660	Land leased/ Building owned
United States	Salina	Conventional Lamps	71,549	Owned
United States	Collierville	Electronics	3,700	Owned
United States	San Marcos	Professional luminaires	24,584	Owned
United States	Tupelo	Professional luminaires	47,701	Owned

### **Distribution centers**

<b>Country</b>	<b>City</b>	<b>Size (m<sup>2</sup>)</b>	<b>Owned/leased</b>
France	Villeneuve-Saint-Georges	55,635	Owned
Netherlands	Eindhoven	19,903	Leased
Poland	Pila		Outsourced (CEVA)—Basically dedicated to Philips
United States	Mountain Top	37,161	Leased
United States	Memphis	35,720	Leased
United States	Ontario	29,849	Leased
China	Chengdu	12,300	Land leased/ Building owned
China	Shanghai		Outsourced (PGL Logistics)—Philips one of major customers
China	Shenzhen		Outsourced (YHG)—Philips one of major customers
Indonesia	Jakarta		Outsourced (K-LOG)—Philips one of major customers

### **Other properties**

<b>Country</b>	<b>City</b>	<b>Principal use</b>	<b>Size (m<sup>2</sup>)</b>	<b>Owned/leased</b>
Netherlands	Roosendaal*	Financial Asset	210,488	Owned
China	Shanghai/Malu**	Financial Asset	3,700	Owned
Mexico	Monterrey***	Financial Asset	75,000	Owned
Indonesia	Surabaya	Financial Asset	56,442	Land leased/ Building owned

\* Production at the Roosendaal site stopped as of December 2015 and the site is currently being decommissioned by the Group. The Group intends to sell land and buildings before the end of 2016.

\*\* The BG Professional activities in Shanghai/Malu are expected to be integrated into the operational manufacturing plant in Chengdu. BG Lamps production will remain on site. A large majority of the Shanghai/Malu site is leased to Lumileds until 30 September 2021.

\*\*\* Production at the Monterrey site stopped as of October 2015. The property has been sold and is currently being decommissioned by the Group. The Group expects to deliver this site to the buyer in mid-2016.

## Procurement

The Group's procurement function works across Business Groups and business functions to ensure its approach is end-to-end driven. The procurement function generates value for the Group through its contribution in margin optimization by realizing sustainable bill-of-material cost savings, which almost entirely come from (i) price savings, resulting from (re)negotiation of contracts with existing or new suppliers, and (ii) concept savings, resulting from product design optimization through re-engineering or re-specification activities. In addition, the Group's procurement function manages payment terms with suppliers and enables meaningful innovations through early supplier involvement and guided, sustainable supplier management. The Group's procurement function works with standardized, transparent processes and dedicated procurement tools, and uses shared service center solutions to improve operational efficiency and reduce complexity. Electronic sourcing tools are frequently used for auctions and biddings, to generate competition in negotiations and obtain objective and transparent sourcing decisions.

With a relatively high level of vertical integration, the Group purchases a broad range of products with a high proportion of raw materials and components. In addition, the Group purchases finished products, non-product related materials and capital goods, such as machines or parts for production equipment, as well as services to the extent needed. As the Group's operational manufacturing plants and its sales organizations are spread around the world, the purchased volumes are distributed accordingly. The main countries where the Group purchases its products in terms of volume are China, Poland, France, the Netherlands, India and the United States.

To support natural currency hedging and to realize logistical advantages, the Group pursues a balanced local or regional sourcing strategy. The Group strives to maximize regional and worldwide demand pooling to generate economies of scale to the extent possible on reasonable terms. The Group maintains a diversified supply base with long-term supplier relations to increase bargaining power and not to become too dependent on a limited number of suppliers. To the extent possible, the Group tries to secure a qualified second procurement source. Due to the specific sourcing needs, a fair amount of the products purchased by the Group is directly impacted by the supply situation of commodities such as rare earth metals, copper, phosphor, steel, aluminum, noble gases and oil-related products. While the Group does not expect specific supply constraints for these materials, its sourcing costs are strongly dependent on material price developments. Limitations on export of rare earths from China, for example, have historically resulted in a strong price fluctuations of rare earths used in fluorescent lamps and CFLs.

As the industry has begun the shift towards LED lighting products, some suppliers have also shifted their focus away from conventional lighting components towards those used in LED lighting products. The effect has been to reduce to some extent sources of supply for conventional lighting products. The Group expects that this trend may continue and continues to pursue where practicable a multiple supplier strategy.

The Group's key suppliers are regularly evaluated and improvement measures are mutually agreed. It is part of the Group's procurement strategy to use the innovation power of its suppliers by integrating them into the product development processes and to continuously generate material related productivity improvements.

## Employees

As of 31 March 2016, the Group employed approximately 36,350 FTEs, of which approximately 22,300 FTEs were manufacturing FTEs. As of 31 December 2015, BG Lamps accounted for approximately 53% of manufacturing FTEs, BG LED for approximately 13% of manufacturing FTEs, BG Professional for approximately 31% of manufacturing FTEs and BG Home for approximately 4% of manufacturing FTEs. The Group expects that the split of employees will shift over time from BG Lamps to BG LED and BG Professional in line with the industry transition from conventional lighting technologies to LED technologies, systems and services. As of 31 December 2015, approximately one quarter of the Group's manufacturing FTEs were based in Western Europe<sup>36</sup>, United States and Canada, and the remainder elsewhere. See also "Management, Employees and Corporate Governance—Employees".

## Intellectual Property

The Group owns a portfolio of intellectual property rights including over 25,000 registered intellectual property rights of which over 14,000 patent rights as of 31 March 2016. The value of the patent portfolio is significant because the Group has generated and acquired patents resulting from pioneering innovations. The Group believes that it holds a number one position in the number of lighting business patents. Approximately 90% of its patents are LED lighting and digital related, and approximately 10% are conventional lighting related.

<sup>36</sup> Western Europe includes Belgium, Italy, Germany, the Netherlands, United Kingdom, Denmark, France and Spain.



The Group believes that it owns the largest number of living patent families in LED lamps, modules and drivers, and lighting control and services; for example, it owns the largest number of intellectual property rights in coded light and indoor positioning services.

The Group applies many intellectual property rights and technologies across multiple BGs which allows for synergies and scale benefits. In addition, the Group believes that its leading intellectual property right portfolio provides the following key benefits:

- Cross license agreements that enable higher margins in certain areas and higher market shares. The large and valuable patent portfolio of the Group enables it to conclude cross license agreements with competitors that also have strong patent portfolios. Through these cross license agreements, the Group has access to technologies developed and protected by these competitors. This enables the Group to develop better products against lower costs and this has a positive impact on market shares and margins, especially for innovative products and services;
- Intellectual property is used to get better deals in licensing-in agreements. Other companies sometimes offer licenses under their patents in return for a royalty payment. As such companies often also use some of the Group's patents, the Group is able to negotiate lower royalty payments in return for a license under such patents; and
- Higher margins because specific features are protected by intellectual property rights. As of 31 March 2016, the Group has licensed only approximately 10% of its patent rights. This means that it is able to keep certain specific features proprietary so that it can compete on these features in the market. Having proprietary features helps to obtain higher margins.

As of 31 March 2016, the Group has licensed over 1,400 patent rights to more than 600 licensees. The Group expects more than 100 new licensees every year and growing licencing revenues as a result of a growing luminaire market, increasing LED penetration and a growing connected lighting market. The life of each patent is limited by law to 20 years and consequently some important Group patents will lapse in the coming years. However, as the Group has continuously invested in filing new patents and acquiring patents from third parties over the last 20 years, it is expected that the license revenues and other benefits from the patent portfolio will remain significant until at least 2025.

The Group will have the right to use the Philips brand name for a period of ten years from the date of the Separation, with two renewal options, each extending five years, contingent upon certain conditions being met, under the TMLA, see "The Separation—Intellectual Property". Through this license, the Group believes that it will be able to continue to sell as a premium brand. The license is subject to royalty payments, brand identity, quality and sustainability requirements. In addition, the Group also has the right to use the Philips company name for a period of 18 months after the date that it is no longer controlled by Royal Philips (See "Separation—Intellectual Property").

### **Information Technology**

IT is an important part of the Group's operations. The Group relies on IT to manage the day-to-day operation of its business, manage relationships with customers, maintain R&D data and maintain financial and accounting records. The Group predominantly uses SAP and Microsoft products as its common application platforms. The Group's regional and global data centers are outsourced to third parties and data management is increasingly organized through cloud-based services. Most of the operational and support activities have been outsourced to Wipro and Cognisant, office support is provided by HP, and project work is done with resources from Ciber, Cap Gemini, Wipro and Cognisant. The Group has employees working in IT in Eindhoven, but also has support centers in the United States, China and Singapore. Many operational activities are coordinated from India where the Group also has a team conducting advanced analytics. The Group is currently building two near shore support and development centers in Poland and Mexico.

The Group's IT Strategy is aimed at supporting the Group's business ambitions for growth and moving more towards systems and services. The Group is seeking to invest in new capabilities such as CPQ (a new system used by individuals involved in sales, which speeds up the quoting process and can automatically trigger an order if needed), customer project management (a tool and process enabling projects for customers), B2B, business-to-consumer, Digital (revising the website, social monitoring and creating a new web shop) and product lifecycle management (a single template used for all product developments). The Group is currently working on moving towards a single SAP system which uses standardized processes and this is expected to be complete by mid-2018. The Group aims to reduce costs by (i) accelerating the decommissioning and consolidation of applications; (ii) moving traditional data center services to leverage cloud and virtual data centers; and (iii) aligning services.

## Environment

The Group has been in the business of manufacturing products for 125 years. During that period, the Group has opened, discontinued and acquired manufacturing plants and sites. As of 31 March 2016, the Group had a portfolio of 80 sites that it tracks for their environmental status, including operational and defunct manufacturing plants, offices, shops, warehouses and distribution centers. This number includes both currently operating sites (29) and discontinued sites (51), *i.e.*, sites that have been divested or where operations have stopped. Of the 80 sites, 17 legacy sites relate to the manufacturing of non-lighting products but have been allocated to the Group pursuant to the Separation. Two of these legacy sites are operational and 14 are discontinued sites.

The Group regards its responsibility to operate its business in an environmentally responsible manner as one of its core objectives. The Group believes that it has adopted adequate and effective systems to control emissions and to comply with applicable environmental laws and regulations, including an environmental risk assessment and remediation policy. However, as the Group's discontinued and currently operating manufacturing plants produce(d) and use(d) various hazardous substances, including different metals and chemicals, there is always a latent risk that the Group's premises may be subject to environmental conditions that require corrective measures. The Group defines environmental conditions as conditions that need corrective action based on legislation or constructive obligations. It can sometimes take many years before it is discovered that certain premises have conditions that urge corrective measures. About two-thirds of the Group's premises with recognized environmental conditions are affected by chlorinated solvents, which are typically used for degreasing and cleaning purposes. The remaining approximately one third of the premises are affected by petroleum products from fuel storage and other uses or as a result of manufacturing materials and processes (heavy metals). Remedial solutions and corrective actions include hot-spot soil removal (excavation), off-site disposal, soil vapor extraction, thermal desorption, pump and treat, enhanced reductive de-chlorination used in situ reactive zones and monitored natural attenuation of groundwater.

The Group has centralized its governance of environmental soil and groundwater liabilities. Such liabilities are managed by a core team of environmental experts with an average of approximately 20 years of experience in the environmental field, including investigation and remediation. The Group's core environmental team is supported by business analysts. This team provides support for the Group globally.

The Group believes that it has well established processes to identify and recognize environmental provisions that are in compliance with IAS 37. The Group has a total environmental provision relating to soil and groundwater contamination of €158 million as of 31 March 2016, of which approximately 46% relates to 5 sites located in Germany, the Netherlands, France and Belgium. The environmental provision relates to approximately 11% of the Group's portfolio of plants and sites. In addition, the Group has a total environmental provision of €9 million relating to buildings and a total reimbursement potential of €19 million.

## Health and Safety

The Group considers the protection of the health and safety of its employees, customers, suppliers and other stakeholders as an integral part of its activities. The Group is committed to continuous improvement of its machine safety and the general work environment and strives for an injury-free and illness-free work environment. The Group considers governing regulations as a minimum. The Group expects every employee to contribute to the prevention of accidents by reporting, analyzing and controlling health and safety hazards. This is supported by training programs for management and employees and health and safety improvement plans. Line management is responsible for demonstrating the Group's visible commitments and to enforce and provide appropriate resource to implement the Group's health and safety policy. Line management is supported by dedicated health and safety professionals and a team of sustainability professionals at Group level.

The Group has implemented reporting policies for health and safety infractions, process incidents and work-related injuries. All such incidents are assessed at the division and corporate levels, which consult with each other and with local personnel to determine the causes of such incidents. Finally, the Group implements corrective measures designed to prevent future incidents. Where applicable, these measures are implemented not only at the manufacturing plant where the original incident took place, but also at other manufacturing plants where similar risk situations are identified.

The operational units of the Group are certified by relevant industry standards. Every major operational unit of the Group is OHSAS 18001 (Occupational Health and Safety Management) and ISO 14001 (Environmental Management System) certified. The Group has a health and safety improvement plan that consists of improvement actions in the areas of people, assets and processes based on local priorities. Health and safety performance and the status of improvement plans are reviewed by operational management on a regular basis with regard to content, scope and how actions are followed up.

As a result of its health and safety policy, the Group has succeeded in lowering the reported accident rates from 1.4 lost workday injury cases per 100 employees in 2005 to 0.34 in 2015 (0.37 in 2014 and 0.42 in 2013). The number of lost workdays reported in 2015 (4832 days of absence) was slightly higher than in 2014 (4700 days of absence). The slight increase in lost workdays is attributable to a few cases reported in 2015 with longer-term absences.

## **Risk Management**

The Group has and will continue to have a structured risk management process allowing its management to take risks in a controlled manner. Risks and opportunities are identified in a structured way combining elements of a top-down and bottom-up approach. Risks are reported on a regular basis as part of the Group's 'Business Performance Management' process. All relevant risks and opportunities are prioritized in terms of impact and likelihood, considering quantitative and qualitative aspects. The bottom-up identification and prioritization process is supported by workshops with the respective management at BG, MG and Group level. The top-down element allows potential new risks and opportunities to be discussed at management level and included in the subsequent reporting process, if found to be applicable. Reported risks and opportunities are analyzed for potential cumulative effects and are aggregated at BG, MG and Group level.

Risk management and controls form an integral part of the business planning and review cycle. The existing and potential risks could hinder the Group in achieving its strategic and financial business objectives, and could ultimately have a major impact on the Group's businesses, objectives, revenues, income, assets, liquidity or capital resources. The Group's risk management and control policy is designed to provide reasonable assurance that objectives are met by integrating management control into the daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the Group's financial reporting and its related disclosures. It makes management responsible for identifying the critical business risks and for the implementation of fit-for-purpose risk responses.

The Group uses standardized methods designed for identifying, monitoring, documenting and reporting on risks, and taking corrective action where necessary. The Group's corporate governance approach, for example, involves internal and external audits ensuring periodic monitoring and reporting. The Group has also incorporated a Business Control Framework ("BCF") and General Business Principles ("GBP"). The BCF sets the standard for risk management and business control and is based on the "Internal Control-Integrated Framework (2013)" established by the Committee of Sponsoring Organizations of the Treadway Commission. Its objectives are maintaining integrated management control of the Group's operations, in order to ensure the integrity of the financial reporting, as well as compliance with laws and regulations. As part of the BCF, the Group has also implemented a global standard for internal control over financial reporting, which supports business and functional management by quarterly assessments of, monitoring of, and reporting on the control environment. The GBP set the standard of the Group's core behavior, acting with integrity, and they apply to the behavior of individual employees and corporate actions. The GBP set out a self-assessment process, enable quarterly monitoring, include standardized reporting on non-compliance and further contain complaint procedures and a formal escalation procedure. Every country organization and all main operational manufacturing plants are supported by a GBP compliance officer, which is supervised by the GBP Review Committee. Alleged violations of the GBP are registered consistently in a database and are investigated in accordance with standardized investigation procedures. Furthermore, there are also separate codes of ethics that apply to employees working in certain areas of the business (such as the Procurement Code of Ethics and the Financial Code of Ethics).

## **Compliance**

As part of Royal Philips, the Group was integrated into the Royal Philips compliance system. The Group will continue to apply this compliance system, which is based on the GBP. The Group has also adopted the GBP governance framework that applies within Royal Philips. A dedicated committee to review GBP compliance has been established. This committee (i) advises the Board of Management on matters concerning the GBP and GBP deployment; (ii) advises the business on GBP matters of a complex nature or with a global impact; (iii) drives the deployment of programs designed to heighten awareness of, and compliance with, the GBP; (iv) implements and maintains adequate procedures to help ensure compliance with the GBP; (v) coordinates the twice-yearly reporting on compliance with the GBP and the underlying policies to the Board of Management and the Audit Committee of the Supervisory Board; and (vi) facilitates alignment between the individual compliance domains (HR, legal, IT, Internal Audit and business) on the relevant ethics and compliance programs. The committee maintains a network of GBP compliance officers at market, country, site, Business Group and functional level. These GBP compliance officers are responsible for the effective deployment of the GBP within their area of responsibility. The committee meets at least four times per year to discuss the progress on its commitments, risk management, consolidated monitoring data and individual compliance domain reports. Various stakeholders are

also involved and invited to inform the committee on the status of deployment of their respective ethics and compliance programs. Representatives of individual compliance domains regularly review the GBP and the monitoring and reporting structure to ensure alignment with regulatory developments. They analyze and realize improvement plans related to the individual compliance domains. They investigate alleged violations, provide advice on corrective and disciplinary measures and report on a bi-annual basis to the committee on the status of deployment of their respective ethics and compliance programs.

### **Legal and Arbitration Proceedings**

Neither the Company nor any of its Group Companies are, or during the 12 months preceding the date of this Prospectus have been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) that may have, or have had in the recent past, significant effects on Group's financial position or profitability. The Group determines on the basis of applicable accounting principles whether or not it needs to form a provision for threatened or pending proceedings. With respect to total amounts of provisions taken by the Group in relation to legal, regulatory and arbitration proceedings, please see Notes E.18 and E.26 of the Combined Financial Statements.

Although not considered material by the Group, a summary of the most relevant current legal proceedings is provided below.

#### ***Capuava***

The Group is involved in a number of legal proceedings initiated by former employees of the Group's manufacturing plant in the district of Capuava, in the city of Mauá, Brazil. The manufacturing plant in Capuava was closed in 2010 and all employees were dismissed at that time. The legal proceedings consist of individual claims of former employees and a collective action. The collective action was initiated by the Public Prosecutor in Brazil encouraged by the association of workers (AEIMM), certain of whose members were allegedly poisoned by mercury contamination at the Group's manufacturing plant in Capuava. The collective action was settled in April 2015 for a R\$24 million lump sum compensation payment and an undertaking by the Group to provide lifetime health plans to all former employees covered by the settlement (of which the currently estimated amount is R\$ 16.7 million) and the Group has assessed that there are 150 potential beneficiaries of the settlement. The legal proceedings initiated by individual former employees include, among other claims, claims related to mercury contamination, other illnesses and overtime worked. These individual claims are assessed on a case-by-case basis and the Group defends itself vigorously against these claims. The total claimed amount of pending individual legal proceedings related to mercury contamination, other illnesses and overtime worked corresponds to approximately €13.3 million for the three month period ended 31 March 2016.

### **Insurance**

Until the Settlement Date, the Group is covered by Royal Philips' global umbrella insurance policies (the so-called Global Insurance Program). The Separation Agreement provides that as from the Settlement Date, the Group ceased to benefit from coverage under existing Royal Philips global umbrella insurance policies. The Group has purchased its own insurance cover, which has been negotiated with the assistance of professional insurance brokers. As of the Settlement Date, the Group will have to rely on its own insurance program and will no longer have access to the Royal Philips insurance programs after the agreed fixed period.

The Group's global insurance policies provide cover for a broad range of losses in the areas of property damage/business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime, and cyber liability.

To lower exposures and to avoid potential losses, the Group has established a global risk engineering program. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at the Group's locations and business critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. On-site assessments are carried out against the predefined risk engineering standards, which are agreed between the Group and the insurers. Recommendations are made in a risk improvement report and are monitored centrally.

The Group believes that it is adequately insured and that the Group pays appropriate premiums for this coverage. The insurance coverage is regularly evaluated and adjusted as necessary. It cannot, however, be ruled out that the Company or one of the companies within the Group could suffer damages that are not covered by the existing insurance policies or that exceed the coverage limits set in these policies. Furthermore, there is no guarantee that the Group will also be able to obtain adequate insurance cover at appropriate conditions in the future.

## Material Contracts

Below is a summary of certain key contracts of the Group (other than those entered into in the ordinary course of business).

- Separation Agreement—for a description of the Separation Agreement, see “Separation—Separation Agreement”
- IP TLA—for a description of the IP TLA, see “Separation—Intellectual Property”
- IT TSLA—for a description of the IT TSLA, see “Separation—IT TSLA and Reverse IT TSLA”
- CNLA—for a description of the CNLA, see “Separation—Intellectual Property”
- TMLA—for a description of the TMLA, see “Separation—Intellectual Property”
- Relationship Agreement—for a description of the Relationship Agreement, see “Existing Shareholders and Related Party Transactions—Relationship Agreement”
- Credit Agreement—for a description of the Credit Agreement, see “Operating and Financial Review—Financing Structure Following the Offering”

## Group Structure

The Company is a holding company without material direct business operations. The principal assets of the Company are the equity interests it directly or indirectly holds in its Group Companies.

### Material subsidiaries

The following companies are the Company’s material subsidiaries:

	<u>Corporate seat</u>	<u>Interest held by the Group</u>
WMGD Pty. Limited	Australia	100%
Philips Belgium	Belgium	100%
Philips Innovative Applications	Belgium	100%
Philips Lighting Canada Ltd.	Canada	100%
Philips Electronics Technology (Shanghai) Co., Ltd.	China	100%
Philips Lighting Industry (China) Co., Ltd.	China	100%
Philips Lighting Luminaires (Shanghai) Co., Ltd.	China	100%
Philips Lighting (China) Investment Co., Ltd.	China	100%
Philips Luminaires (Chengdu) Co., Ltd.	China	100%
Philips Lighting GmbH	Germany	100%
Philips IPSC Tamasi Kft.	Hungary	100%
PT. Philips Indonesia	Indonesia	99,99%
Philips Lighting Italy S.p.A.	Italy	100%
Philips Mexicana, S.A. de C.V.	Mexico	100%
Philips Lighting B.V.	Netherlands	100%
Philips Lighting Holding B.V.	Netherlands	100%
Philips Lighting Poland Sp. z.o.o	Poland	100%
Philips Lighting Saudi Arabia LLC	Saudi Arabia	51%
Saudi Lighting Company Limited	Saudi Arabia	51%
Philips Lighting Spain, S.L.	Spain	100%
Philips Lighting Sweden AB	Sweden	100%
Philips Electronics (Thailand) Ltd.	Thailand	100%
Philips Lighting UK Limited	United Kingdom	100%
Genlyte Thomas Group LLC <sup>37</sup>	United States	100%
Philips Lighting North America Corporation	United States	100%
Strand Lighting LLC	United States	100%
The Genlyte Group Incorporated	United States	100%

## Recent Developments

The Group expects to incur restructuring and acquisition-related changes of approximately €60 million for the three-month period ending 30 June 2016, of which approximately one-third relates to restructuring plans which have already been initiated by the Group in the period prior to 11 May 2016.

<sup>37</sup> Genlyte Thomas Group LLC, Philips Lighting North America Corporation, Strand Lighting LLC and The Genlyte Group Incorporated will be transferred to the Group prior to the Settlement Date.



## REGULATION

### Overview

The Group is subject to regulatory requirements in the markets where it operates. All countries in which the Group operates have various and comprehensive laws, regulations, technical rules and standards in place concerning, among other things, environmental and health protection, the production, handling, storage and transportation of hazardous materials, radiation protection and the recycling and disposal of waste. Due to the Group's multinational business operations, it has to comply not only with Dutch and European regulations, but also with regulations in other jurisdictions in which the Group operates its business. These regulations are revised on a constant basis and require ongoing monitoring and improvements by the Group, which can at times require substantial investments.

### Environmental Related Regulations

Each country where the Group develops, produces and sells its lighting products and services has various environment-related regulatory requirements. Within the EU, these requirements are defined in EU directives and implementing member states' national laws as well as in EU regulations which are directly legally enforceable in the member states. The Group must comply with substantial labelling, certification, approval and permit requirements, as well as numerous and continually increasing energy related product requirements, particularly with regard to environmental protection and the safety of users as well as substances reporting requirements and substance restrictions. Violations of such regulations can lead to consequences under public law, civil law and criminal law. Non-compliance may result in administrative fines or even constitute a criminal offence. The Group may be subject to claims under warranty laws, product liability laws and in tort, and may be required to issue warnings or product recalls, which may damage its reputation and lead to substantial liabilities and costs (see also "Risk Factors—*The Group sets high quality standards for its products but it is possible that products may contain defects or otherwise not perform as expected. Quality defects may reduce sales, result in costs associated with warranty or product liability claims or require recall of affected items*"). The following regulations are of particular relevance to the Group:

### Energy Efficiency and Labelling

As a manufacturer of energy-using products, the Group has to comply with all regulations on energy efficiency and environmental compatibility. Energy-using products are products for whose use energy must be supplied in the form of electricity, fossil fuels or renewable energy resources.

The Framework Directive 2009/125/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for the setting of eco-design requirements for energy-related products (also called Energy-related Products Directive, "**ErP-Directive**") deals with all energy related products. The ErP-Directive aims at protecting the environment by reducing the environmental impact of energy-related products. Therefore, the ErP-Directive sets a framework for the introduction of specific eco-design aspects that the Group has to integrate into its product designs. Before being placed on the market or put into service, all products must undergo a conformity assessment concerning all eco-design requirements. As a manufacturer, the Group has to provide consumers with information on the role that they can play in the sustainable use of the product concerned, as well as the ecological profile of the product and the advantages of eco-design. If a product does not fulfil these requirements, member states of the European Union must take suitable measures which may go as far as prohibiting product placement on the market. The ErP-Directive has been implemented into national law by EU member states.

Based on the Eco-design Directive the European legislator sets forth specific requirements for defined product groups or for environmental aspects thereof ("Implementing Measures"). With respect to lighting products for households and certain fluorescent and HID products, the following Implementing Measures have been adopted:

Regulation (EC) No 244/2009 of 18 March 2009 implementing Directive 2005/32/EC of the European Parliament and the Council with regard to eco-design requirements for non-directional household lamps (amended by Regulation (EC) No 859/2009 of September 18, 2009) establishes rules for the phasing out of inefficient lamps (mainly conventional incandescent lamps and conventional halogen lamps) and sets forth functionality requirements, *e.g.*, with respect to lifespan, light quality, starting times, UV radiation, for other lamps. In addition, the regulation requires the Group to display product information on the packaging of the lamps and on free access websites. According to the regulation, inefficient lamps have had or will have to be phased out gradually from the EU market by September 2012 (with respect to conventional incandescent lamps), or respectively, September 2018 (with respect to mains-voltage halogen non-directional lamps).

Non-directional lamps must comply with the requirements regarding energy efficiency of Commission Regulation (EC) No 244/2009. Special purpose lamps do not have to comply with energy efficiency and functionality requirements. However, there are certain information requirements for these lamps.

The Commission Regulation (EC) No 245/2009 of 18 March 2009 implementing Directive 2005/32/EC of the European Parliament and of the Council with regard to eco-design requirements for fluorescent lamps without integrated ballast, for HID lamps, and for ballasts and luminaires able to operate such lamps, and repealing Directive 2000/55/EC of the European Parliament and of the Council (amended by Commission Regulation (EU) No 347/2010 of 21 April 2010 and Commission Regulation (EU) No 1428/2015), establishes eco-design requirements for products which are mainly used in office lighting, industry lighting and street lighting. The following products have been or will be phased out in several stages: In 2010, T8 halophosphate fluorescent lamps have been phased out. T12 fluorescent lamps have been phased out in 2012. In addition, regarding high-pressure sodium lamps (HPS) and metal halide lamps (for both, lamps with E27, E40, PGZ12 bases) minimum quality requirements (regarding efficiency, lifespan and lumen maintenance) are established and non-complying products have been phased out. In 2015, high-pressure mercury lamps and plug-in or retrofit high-pressure sodium lamps with low efficiency have been phased out. Poor performing metal halide lamps (with E27, E40, PGZ12 bases) will be phased out in 2017. Certain products are exempt from the energy efficiency and functionality requirements. However, there are certain information requirements applicable to these products.

The Commission Regulation (EU) No 1194/2012 of 12 December 2012 implementing Directive 2009/125/EC of the European Parliament and of the Council with regard to eco-design requirements for directional lamps, LED lamps and related equipment, designed for installation between the mains and the lamps, including lamp control gear, control devices and luminaires (other than ballasts and luminaires for fluorescent and high-intensity discharge lamps), which also applies when integrated into other products, has come into force on 3 January 2013 and establishes specific eco-design requirements (requirements in regard to energy efficiency, functionality and product information) for these products and which shall apply in accordance with three stages (September 1, 2013, September 1, 2014 and September 1, 2016). Special purpose products do not have to comply with energy efficiency and functionality requirements. However, there are certain information requirements applicable to these products. On 11 September 2015 a communication by the European Commission (COM-2015-443 final) confirmed stage 3: as per 1 September 2016, the date mains-voltage halogen reflector lamps will be phased out.

According to the Eco-design Directive, the products covered by Implementing Measures must bear the CE marking before being placed on the market according to Decision 93/465/EEC of the Council dated 22 July 22 1993. In addition, the Group has to publish information on the consumption of energy and of other essential resources. The Group has to label some of its products as set forth in Directive 2010/30/EC of the European Parliament and of the Council of 21 July 2011. This directive establishes a framework for labelling and consumer information regarding energy consumption of all goods having an impact on energy consumption (energy-related products). For the energy consumption labelling of lamps and luminaires, the directive 2010/30/EU was supplemented by the delegated regulation (EU) 874/2012 on 12 July 2012.

In 2014, the EU has commissioned a study on light sources for eco-design and/or energy labelling requirements. A final report exploring the feasibility of unifying Commission Regulation (EC) No 244/2009, Commission Regulation (EC) No 245/2009, Commission Regulation (EU) No 1194/2012 and delegated regulation (EU) 874/2012 into one single regulation was published on 31 October 2015. On 6 November 2015, the European Commission published Staff Working Documents<sup>38</sup> which discuss new eco-design and energy labelling regulations, including the introduction of efficiency threshold values of 60, 80 and 120 Lumens per Watt for implementation in 2018, 2020 and 2024, respectively.

In 2014, the European Commission announced a feasibility study (ENER Lot 37) on setting energy requirements for lighting systems under existing EU regulations, such as eco-design, energy labelling or the energy performance of buildings directive. This study is expected to be finished by the end of 2016. Depending on the outcome of the study, the Group expects that this study may trigger next steps towards regulations enforcing mandatory controls in new build and/or large renovations from 2017 onwards.

## **Hazardous Substances**

The Group is a producer and importer of products as well as a producer and user of various substances and preparations within the meaning of the applicable chemicals and hazardous substances laws. Therefore, the Group must rely on a comprehensive and complex material management and safe working processes meeting the requirements of the individual countries in which the Group carries out its business operations. Chemicals and

<sup>38</sup> European Commission, Directorate-General for Energy, Invitation to a meeting of the Ecodesign Consultation Forum under Article 18 of the ErP-Directive on lighting products (Lot 8/9/19).

hazardous substances laws are monitored by the competent authorities. In the event of violations, regulators can intervene and order remediation measures and, in the case of administrative offenses, may impose administrative fines. In serious cases, criminal prosecution is also possible.

Placing on the market of certain hazardous substances in electrical and electronic equipment is subject to specific regional (EU) or national restrictions and phase-outs. The Group particularly has to comply with Directive 2002/95/EC of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment (“**RoHS Directive**”) (amended by Directives 2005/618/EC and 2008/35/EC). The RoHS Directive requires heavy metals such as lead, mercury, cadmium, hexavalent chromium and flame retardants of the groups of polybrominated biphenyls and polybrominated biphenyl ethers in electronic and electrical equipment materials to be substituted by safer alternatives. The RoHS Directive has been revised by Directive 2011/65/EU of 8 June 2011 (“**RoHS II-Directive**”), which entered into force on 21 July 2011 and had to be implemented into national law by 2 January 2013. The materials in the scope of the RoHS II-Directive are each subject to temporary exemptions for periods up to five years. Once a particular exemption is due to expire, interested parties may request for a renewal. In January 2015, Lighting Europe applied, on behalf of the lighting industry, for the renewal of all 32 current exemptions, for the use of mercury and lead in lamps that would end by 21 July 2016, if these exemptions are not renewed. The request for renewal of the exemptions has been scrutinized by Öko (*i.e.*, the main consultant of the Directorate-General environment of the European Commission) and was open to the public for commenting until 16 October 2015. The Directorate-General environment of the European Commission will write a proposal for the new exemptions, which will be presented to the European Parliament. The new exemptions, if granted, come into force 12-18 months after publication in the European Official Journal. This request for renewal is relevant for the Group as mercury is used in discharge lamps, such as fluorescent lamps and gas discharge lamps, produced by the Group and cannot be replaced by another substance nor can the mercury dose in lamps be further reduced. Furthermore, many discharge lamps do not have an alternative LED replacement lamp yet, which means that end-of-life discharge lamps cannot be replaced in all existing luminaires.

As a manufacturer, the Group is also subject to Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (“**REACH Regulation**”). A key requirement of the REACH Regulation is the registration of chemical substances at the European Chemicals Agency. Compilation of safety data sheets and registration requirements are applicable to all producers and importers of chemical substances in the European Union. Without prior registration in accordance with the REACH Regulation, it is generally prohibited to produce chemical substances or place them on the market in the European Union. The REACH Regulation also contains a requirement to disclose defined, particularly dangerous substances in products. The Group requests its chemical suppliers to (pre)register the chemicals they supply to the Group, in order to ensure compliance and prevent interruptions of supply. Currently, the number of chemicals the Group produces and imports is limited and all such chemicals have entered into the pre-registration process.

In addition, the REACH Regulation requires producers to inform their customers if certain hazardous substances (so-called “substances of very high concern”) are present in concentrations above 0.1%. The list of substances of very high concern is continuously updated (approximately twice a year) by the European Chemical Agency. The Group manages these obligations on product level by gathering the necessary data from its suppliers and, among other things, uses a web-based industry wide database to evaluate high-risk materials, components and products.

Besides the REACH Regulation, Regulation (EC) No 1272/2008 on classification, labelling and packaging of chemical substances and preparations (“**CLP Regulation**”) applies to the Group’s business. The CLP Regulation stipulates the classification, labelling and packaging of substances and preparations, with manufacturers being responsible for the (correct) classification of the substances and preparations.

## **Radiation Protection**

The Group has to comply with regulations on radiation protection to ensure safety with respect to the handling of ionizing radiation and radiation sources. Certain types of the Group’s high performance lighting sources that are used in professional and industrial applications contain small amounts of substances emitting low level ionizing radiation (Krypton 85 or Thorium). Despite being proven as safe throughout their entire life span by a number of independent studies, especially the publication of IAEA-TECDOC-1679 confirming the safety in all aspects of the life cycle of lamps, the products concerned are subject to an unharmonized and therefore complex set of national and international regulations. These regulations are concerning distribution, storage, handling and import/export activities of such products and may vary significantly by country, although they are

all derived from the International Atomic Energy Agency's ("IAEA") Basic Safety Standards and Directive 2013/59/Euratom of the Council of 5 December 2013 laying down basic safety standards for the protection against the dangers arising from exposure to ionising radiation. According to these regulations, prior authorization has to be obtained for practices that may involve a risk of ionizing radiation, subject to certain exceptions. An authorization can be a license which is subject to certain conditions or an exemption may apply (e.g., if independent safety studies confirm that safety of the relevant products). In the logistic chain from production to end-use, the transport has to comply with the international regulations on the transport of dangerous goods. See —"Dangerous Goods Transport" below.

As of 31 March 2016, in 57 out of 65 countries where the Group manufactures its products the Group has obtained a license or an exemption applies. However, as of 31 March 2016, in 8 countries an application process is still ongoing, in most cases due to local law complexities with regard to classifying lamps as either 'safe' or 'consumer goods' in terminology of IAEA. All manufacturing sites where the involved lamps are being manufactured have obtained a license for the handling of the required components and production of the lamps. The Group has eliminated or drastically reduced the quantities of low level ionizing radiation emitters in many lamp types, thereby reducing non-compliance risks. The Group is focused on avoiding non-compliance with national regulations but these regulations and complex and interpretations differ per country, and mistakes by local staff cannot be excluded in general. However, no penalties or sanctions have ever been issued or threatened in any country. The Group believes that any regulatory action against the Group by a relevant authority in respect of substances emitting low level ionizing radiation could impact local operations and result in financial penalties, but the likelihood and impact of such financial penalties or any resulting reputational damage on the Group are expected to be limited.

### **Transport of Dangerous Goods**

The Group has to comply with dangerous goods regulations for shipment of certain of its products. The Group deals with the transport of lamps containing low level ionizing radiation emitters (see —"Radiation Protection" above), mercury and sodium. Cordless or emergency luminaires can contain lithium batteries. The Group also transports dangerous goods such as chemicals, certain raw materials/components and hazardous waste. Dangerous goods transport regulations are generally internationally defined to prevent issues when crossing borders to other countries. However, regulations have not been harmonized completely and therefore may differ from country to country. Dangerous goods regulations generally require specific organization, training, classification, packaging, marking, labelling and documentation prior to transport and after receipt depending on the 'dangerous goods' classification. The violation of these regulations may be sanctioned with a fine or with further national sanctions (e.g., prohibition of transport) in the event of repetitive intentional violation. Customers may not accept the aggravations of transport and storage caused by the required marking of certain consignments as dangerous goods. To reduce the risk and likelihood of mistakes the Group has concentrated the distribution of the relevant products as much as possible in a few, regional distribution centers where shipping of dangerous goods is part of the routines.

### **Waste Disposal and Recycling**

The Directive (2012/19/EU) on waste of electrical and electronic equipment ("WEEE Directive") entered into force on 13 August 2012 and had to be implemented into national law of EU member states by 14 February 2014. The WEEE Directive makes producers of electrical and electronic equipment ("EEE") responsible for managing and financing the collection, treatment, recovery and environmentally sound disposal of end of life products. The WEEE Directive allows WEEE producers to manage their obligations pursuant to the Directive by way of participation in collective schemes, who manage the obligations on behalf of all producers that are participating in such collective scheme. The Group participates in such collective schemes. Collective schemes finance their activities through collection of waste management fees payable by participating producers for each WEEE product that they put on the market where the collective scheme operates. The relevant waste management fees are determined by the collective schemes and differ per product category.

Luminaires and lamps (with the exception of incandescent and halogen lamps) fall under the product scope of the WEEE Directive. However, the waste from lamps is considerably different from all other WEEE product categories. Lamps represent high volumes but, because of their low average weight, represent only a small fraction (approximately 2%) of the total EEE waste. Lamps are fragile and considered hazardous waste because most lamps contain mercury. For this reason, the WEEE Directive provides for specific criteria for storage, transport and treatment of lamps waste. As a result of these criteria, lamps waste is the most costly waste stream within the entire WEEE scope. Pursuant to the WEEE Directive, EU member states must annually collect 45% of the average weight (and not units) of EEE placed on their national markets (calculated on the basis of EEE placed on the market in the three preceding years) in 2016. As of 2019, member states are generally to achieve a 65% collection rate.



Some equipment, parts and materials supplied to the Group or produced by the Group will become part of equipment and products which can be subject to further regulation, for example the restrictions of substances defined in Directive 2000/53/EC of the European Parliament and the Council of September 18, 2000 on ELVs and defined in Directive 2006/66/EC of the European Parliament and the Council of September 6, 2006 on batteries and accumulators and repealing Directive 91/157/EEC of the Council of March 18, 1991 on batteries and accumulators containing certain dangerous substances.

In many other markets in which the Group is active, regulations have been enacted or are under discussion in pursuit of legislative goals similar to that in Germany and/or in the European Union. In the United States, for example, a number of states have passed, introduced or plan to introduce regulations on the recycling of products. Currently Maine, Washington and Vermont have passed laws requiring manufacturer-funded recycling of (primarily) residential mercury-containing lamps. Massachusetts law holds manufacturers responsible for the state lamp recycling rate for all mercury-containing lamps and currently authorizes an annual fine on the industry (up to \$1 million annually) for the non-compliance. The Group is working with other lighting industry participants through the National Electrical Manufacturers Association to amend this law and institute a more practical program focused solely on mercury-containing lamps sold at retail. In California, the cost of recycling (or any “fee”) may not be added to prices unless approved by a 2/3 majority vote of the Californian legislature. Since this is a difficult obstacle to overcome, the Group is currently working with a California lobbying firm engaged by the Group, as well as with other lighting industry participants on alternative proposals. At this point, all legislative activity related to manufacturer-funded recycling has been focused on lamps sold at retail. Given the number of countries in all parts of the world which have or plan to implement such legislative acts related to waste electrical and electronic equipment, it cannot be ruled out that in some of these countries the Group will not be able to comply, or fail to comply within the set timeframe, with all relevant regulations, which might lead to penalties or restrictions relating to the sale of the Group’s relevant products.

The WEEE Directive may serve as an example for implementation of local legislations with respect to EEE in non-EU jurisdictions. In many non-EU countries where the Group is active, EEE regulations have been enacted or are under discussion. The Group lobbies for workable and effective legislation, directly through its local management teams or through local lighting associations. Also in non-EU countries, it is the Group’s policy to manage its obligations pursuant to EEE waste legislations by way of participating in collective schemes. In some countries the Group has established organisations through a range of different legal forms, which organize the collection and treatment of used electrical or electronic waste for the companies in the lighting industry and which concluded agreements with third parties for this purpose.

### **U.S. Lighting Regulations**

In the United States, lighting-related regulations are initiated on a federal level by the DoE, or in some cases the state agencies (*e.g.*, California Energy Commission). They are generally categorized as related to energy efficiency or environmental in nature. Appliance standards set minimum energy performance standards for lighting components such as lamps, ballasts and luminaires. As a consequence, any product manufactured on or after a specific date may not enter the U.S. market unless it meets the performance standard. To date, a variety of appliance standards apply particularly to traditional lighting products, such as incandescent, halogen and linear fluorescent lamps, to discharge lamp ballasts and to illuminated exit signs. There are also voluntary product performance standards in the United States that have broad market acceptance and considerable business impact such as the U.S. Environmental Protection Agency’s Energy Star program and the Design Lights Consortium’s Qualified Products List. The Energy Star program covers consumer lighting products such as CFLs and LED lamps and luminaires whereas Design Lights Consortium’s Qualified Product List address commercial applications. The vast majority of utility driven rebate and incentive programs for lighting products rely on obtaining Energy Star and Design Lights Consortium certifications.

Building energy standards/codes include provisions for maximum installed power allowed for lighting systems and lighting controls. Building energy codes came into being in the United States during the energy and economic crises of the 1970s. In 1978, an amendment was added to the Energy Policy and Conservation Act of 1975 which required states to create mandatory programs including energy conservation standards for new commercial construction if they were receiving federal aid. The American Society for Heating Refrigeration and Air Conditioning Engineers (“ASHRAE”) Standard 90.1, the International Energy Construction Code (“IECC”), and California’s Title 24 code are the primary forces shaping the minimum requirements for lighting systems in U.S. commercial buildings. ASHRAE Standard 90.1 and the IECC are created by consensus groups and have to be adopted by state and local authorities before compliance can be required/enforced, while in California, the California Energy Commission oversees all updates to the code. Although only adopted in California, the continuous development and refinement of Title 24 drives ASHRAE 90.1 and the IECC toward greater efficiency and at the same time, prescriptiveness. On the environmental side, most lighting regulations are state-driven and tend to focus on recycling, disposal, and material content of lighting products.



Trends in energy-related lighting regulations are towards requirements for lighting controls and sensors to reduce system-level energy consumption as well as increasing efficiency for lamps and ballasts. Three significant ongoing rulemaking activities are the DoE's General Service Lamp rulemaking update, mandated as part of the Energy Independence and Security Act of 2007, the External Power Supply 2014 rule, and the State of California's Title 20 updates for General Service LED lamps and Small Diameter Directional Lamps.

The DoE is currently working on the next iteration of rulemaking for general service lamps which is expected to include minimum performance standards for LED lamps and exchange them for CFLs. These potential changes will impact the current product portfolio and are expected to go into effect on 1 January 2020. This rulemaking will also eliminate some of the current exemptions for rough service and special application incandescent lamps. The impact on the general service halogen lamp market is not yet clear. The proposed rule has been issued on 12 February 2016 for public review and comment.

In 2014, the DoE enacted a regulation with performance criteria for External Power Supplies that is primarily directed at plug-in remote power supplies for laptops, residential battery chargers and other similar consumer devices that is effective from 1 February 2016. Unfortunately, the rule is loosely structured and it could be inferred to include electronic drivers for commercial and industrial LED lighting products. As the prescribed test procedure was not intended for drivers, compliance with the regulation could have a business impact. The Group is working with other lighting industry participants through the National Electrical Manufacturers Association towards getting new legislation adopted that would amend the proposed language and exclude commercial and industrial LED drivers from the rule. New legislative language to exclude LED drivers was agreed with the DoE and other stakeholders and has been approved in the House of Representatives on 29 February 2016 and by the Senate on 20 April 2016. The relevant bill is subject to the approval by the President. The Group expects this issue to be successfully concluded in the coming weeks. Given the legislative agreements, the DoE has indicated that it will not take any enforcement measures until Congress completes its action with respect to the proposal.

The California Energy Commission has announced proposals for new performance standards (as part of Title 20) for general service LED lamps effective from 1 January 2017 and 1 January 2019 and also small diameter directional lamps including halogen and LED effective from 1 January 2018. Under the new proposal, MR16 and other small diameter directional lamps would get demanding efficacy requirements while general service LED lamps will get stringent efficacy, and color uniformity and rendering requirements, and challenging standby power limits for smart lamps. For all covered LED lamps, the California Energy Commission plans to offer the option of lower efficacy for 90 CRI products. The new Title 20 proposals if enacted as is, will be the strictest in any country.

The International Code Council and ASHRAE have agreed to consolidate the International Green Construction Code ("IgCC") and Standard 189.1 into the 2018 version. The IgCC is the first code to include sustainability measures for complete construction projects and the site from design to completion. It establishes baseline "green" requirements for new and existing buildings. This market-significant agreement is significant as it establishes a comprehensive framework for jurisdictions looking to implement and adopt green building regulations and codes and enhances the credibility and visibility of the IgCC, making it easier for states and municipalities to adopt. The 2012 IgCC is adopted as law in 13 states and in Washington, D.C.

Some U.S. states make producers responsible for disposal costs regarding lighting products that contain lead or mercury. The Group expects that in the coming years, at least six additional U.S. states will adopt corresponding regulations. According to the environment-related lighting regulations, manufacturers will be held responsible for end-of-life disposal costs for products containing materials such as mercury and lead. The regulations applicable in the EU serve as guidelines to set standards for maximum toxic material content in lighting products. Within the United States there is potential for different toxic material content regulations set by states instead of federal law, which causes labelling, shipping, and operational issues. Some U.S. states have established producer responsibility groups that are regulated by the state and are paid for and run by manufacturers. The number of such groups will most likely increase and might extend to up to 50 different groups in the future.

## MANAGEMENT, EMPLOYEES AND CORPORATE GOVERNANCE

This section summarizes certain information concerning the Board of Management, the Supervisory Board, the Group's employees and the Company's corporate governance. It is based on the Articles of Association, the Board of Management Rules (as defined below) and the Supervisory Board Rules (as defined below) as in effect ultimately on the Settlement Date and applicable Dutch law.

The Articles of Association in the governing Dutch language and in an unofficial English translation thereof are available on the Company's website ([www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company)). The Board of Management Rules and the Supervisory Board Rules in the governing English language (only) are also available on the Company's website.

### **Board Structure**

The Company has a two-tier board structure consisting of the Board of Management and the Supervisory Board.

### **Board of Management**

#### *Powers, responsibilities and functioning*

The Board of Management is responsible for the management of the operations of the Group, subject to the supervision by the Supervisory Board. The Board of Management's responsibilities include, among other things, driving the Company's management agenda, stimulating group performance, developing general strategy and identifying risks connected to its business activities, pursuing operational and financial objectives, structuring and managing systems of internal business controls, complying with financial reporting processes, preparing annual accounts, and monitoring corporate social responsibility issues.

Pursuant to the Board of Management Rules, the Board of Management may divide its tasks among its members, with the approval of the Supervisory Board. In performing their duties, the members of the Board of Management are guided by the interests of the Company and its business enterprise, taking into consideration the interests of the Company's stakeholders (which includes but is not limited to its Shareholders, customers, its suppliers, and its employees).

The Board of Management must provide the Supervisory Board and its committees in due time with any information the Supervisory Board and its committees may need for the performance of their duties and furthermore all the information reasonably requested by the Supervisory Board, and must regularly report to the Supervisory Board on the course of business of the Group. The Board of Management is required to notify the Supervisory Board of the main features of the strategic policy, the general and financial risks and the management and control systems of the Company, at least once per year. The Board of Management must submit certain important decisions to the Supervisory Board and/or the General Meeting for approval, as more fully described below.

The Board of Management as a whole is authorized to represent the Company. In addition, two members of the Board of Management, acting jointly, have the authority to represent the Company. Pursuant to the Articles of Association, the Board of Management may appoint proxy holders (*procuratiehouders*) who will be authorized to represent the Company within the limits of the specific delegated powers provided to them in such proxies.

#### *Board of Management Rules*

Pursuant to the Articles of Association, the Board of Management may adopt rules governing, among other items, its decision-making process and conduct of meetings. The rules of the Board of Management effective ultimately on the Settlement Date (the "**Board of Management Rules**") are published on the Company's website under [www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company).

#### *Composition, appointment and removal*

The Articles of Association provide that the Supervisory Board determines the number of members of the Board of Management. As of the date of this Prospectus, the Board of Management consists of two members.

If a member of the Board of Management is to be appointed, the Supervisory Board shall make a nomination which nomination may be binding. If the Supervisory Board makes a non-binding nomination, the nominated candidate is appointed by a resolution adopted by the General Meeting with a simple majority of the votes cast. If the Supervisory Board makes a binding nomination, the General Meeting may at all times overrule the binding nomination by a resolution adopted by a majority of the votes cast, provided that majority represents more than one-third of the issued share capital. If a majority of the votes is cast in favor of overruling the binding nomination, but that majority does not represent more than one-third of the issued share capital, a new General

Meeting may be convened at which the resolution to overrule the binding nomination may be adopted by a simple majority of the votes cast, regardless of the issued share capital represented by that majority. In the event the candidate nominated by way of a non-binding nomination is not appointed or a binding nomination is overruled, the Supervisory Board may, after consultation with the Board of Management, make a new nomination, which nomination may be binding. In the event that this candidate nominated by the Supervisory Board by way of a non-binding nomination is not appointed or if the relevant binding nomination is overruled, the General Meeting shall be free to appoint a member of the Board of Management to fill the vacancy. In that event, the resolution to appoint a member of the Board of Management can be adopted by a simple majority of the votes cast.

The General Meeting may at any time suspend or dismiss a member of the Board of Management. A resolution to suspend or dismiss a member of the Board of Management, other than a resolution proposed by the Board of Management or the Supervisory Board, may only be adopted by a simple majority of the votes cast, provided that majority represents at least one-third of the issued share capital. If a majority of the votes are cast in favor of the suspension or dismissal, but that majority does not represent more than one-third of the issued share capital, a new General Meeting may be convened at which the resolution to suspend or dismiss the member of the Board of Management may be adopted by a simple majority of the votes cast, regardless of the issued share capital represented by that majority. The Supervisory Board may at any time suspend a member of the Board of Management. Within three months of a suspension, a General Meeting will be held to decide whether the suspension will be cancelled or upheld. The suspended member of the Board of Management is entitled to be heard at the General Meeting.

#### ***Term of appointment***

The Articles of Association do not provide for a fixed or maximum term of appointment. In line with the Dutch Corporate Governance Code, the current members of the Board of Management are appointed for a period of four years, it being understood that the period of their appointment will expire at the end of the annual General Meeting to be held in 2020.

#### ***Meetings and decisions***

Pursuant to the Board of Management Rules, where possible, resolutions of the Board of Management are adopted by unanimous vote. Where this is not possible, resolutions of the Board of Management are adopted by a majority vote of the members of the Board of Management present or represented and require the affirmative vote of the CEO. Each member of the Board of Management has one vote. If there are more than two members of the Board of Management in office and entitled to vote, the CEO shall have a casting vote in the event of a tie of votes within the Board of Management. In other cases the proposal shall be deemed rejected in case of a tie of votes within the Board of Management.

The Board of Management must obtain the approval of the Supervisory Board and the General Meeting for resolutions entailing a significant change in the identity or nature of the Company or its business. This includes in any event: (i) transferring the business of the Company, or practically the entire business of the Company, to a third party; (ii) concluding or cancelling any long-lasting cooperation by the Company or a subsidiary with any other legal person or company or as fully liable partner of a limited partnership or a general partnership, provided that the cooperation or the cancellation of that cooperation is of material significance to the Company; and (iii) acquiring or disposing of a participating interest in the capital of a company with a value of at least one-third of the sum of the assets of the Company according to the balance sheet and notes thereto or, if the Company prepares a consolidated balance sheet, according to the consolidated balance sheet and notes thereto according to the most recently adopted annual accounts of the Company, by the Company or one of its subsidiaries.

Certain other important resolutions of the Board of Management identified in the Supervisory Board Rules (as defined below) require the approval of the Supervisory Board, including resolutions regarding (i) the issuance of shares in the Company, restricting or excluding the pre-emption right in the event of an issue of shares, acquisition of shares in the capital of the Company and the disposal of shares thus acquired; (ii) certain qualified major investments; (iii) a proposal to amend of the Articles of Association; (iv) a proposal to dissolve the Company or for a legal merger or split-off of the Company; (v) a petition for bankruptcy or for a moratorium of payments; (vi) a proposal to reduce the issued share capital; (vii) the adoption and amendment of the Board of Management Rules, (viii) provisions regarding an indemnity for the members of the Board of Management or members of the Supervisory Board (iv) the determination of the remuneration of certain senior executives designated by the Supervisory Board; and (iv) the reservation of profits, distributions in the form of Shares, distributions to the debit of one or several reserves, and interim distributions.

Pursuant to the Articles of Association, the Supervisory Board may, in a resolution to this effect, determine that certain other specific resolutions of the Board of Management, are also subject to its approval. Those resolutions must be clearly specified and communicated in writing to the Board of Management.

Pursuant to the Board of Management Rules, resolutions can also be adopted in writing or electronically, without holding a meeting if (i) a proposal for such resolution has been sent to all members; (ii) no member has objected to adopting the resolution in writing; and (iii) the majority of the members of the Board of Management entitled to vote, including the CEO, have voted in favor of such resolution. If there are more than two members of the Board of Management in office and entitled to vote the CEO shall have a casting vote in the event of a tie of votes. In other cases the resolution shall be deemed rejected in case of a tie of votes.

### ***Conflict of interest***

Dutch law provides that a managing director of a Dutch public limited liability company, such as the Company (after execution of the Deed of Amendment), may not participate in the adoption of resolutions (including deliberations in respect of these) if he or she has a direct or indirect personal interest conflicting with the interests of the company. Such a conflict of interest only exists if in the situation at hand the managing director is deemed to be unable to serve the interests of the company and the business connected with it with the required level of integrity and objectivity. Pursuant to the Board of Management Rules, any member of the Board of Management shall immediately report any (potential) conflict of interest concerning to the chairman of the Supervisory Board and to the other members of the Board of Management and shall provide all information relevant to the (potential) conflict. Pursuant to the Board of Management Rules, any member of the Board of Management shall not participate in the discussions and decision-making on a subject or transaction in relation to which such member has a direct or indirect personal conflict of interest or has a conflict of interest within the meaning of the Dutch Corporate Governance Code (the “**Dutch Corporate Governance Code**”, or “**Code**”).

If no resolution can be adopted by the Board of Management as a consequence of such a conflict of interest, the resolution concerned will be adopted by the Supervisory Board. All transactions in which there are conflicts of interests shall be agreed on terms at least customary in the sector concerned and must be approved by the Supervisory Board. All transactions in which there are conflicts of interest will be disclosed in the Company’s annual report.

The existence of a (potential) conflict of interest does not affect the authority to represent the Company, as described under “Board of Management—Powers, responsibilities and functioning” above.

### ***Board of Management***

The Board of Management is composed of the following two members of the Board of Management:

<b>Name</b>	<b>Date of birth</b>	<b>Position</b>	<b>Member as of</b>	<b>Term</b>
Eric Rondolat	30 April 1966	Chief Executive Officer	2 May 2016	4 year term expiring at the end of the annual General Meeting to be held in 2020
René van Schooten	25 June 1959	Chief Financial Officer	2 May 2016	4 year term expiring at the end of the annual General Meeting to be held in 2020

The intention of the Company is to expand the Board of Management over time with another member after the Settlement Date, such member to take the Chief Financial Officer role.

The Company’s registered address, High Tech Campus 45, 5656 AE Eindhoven, the Netherlands, serves as the business address for all members of the Board of Management.

### ***Eric Rondolat***

Eric Henri Edouard Rondolat, the chief executive officer and member of the Board of Management, is a French and Italian national. He gained an engineering degree at the ENSEEG Institut National Polytechnique de Grenoble and a master’s degree in international marketing at the Ecole Supérieure de Commerce de Grenoble. Mr. Rondolat began his professional career at Merlin Gerin SA in 1990 and thereafter became sales manager at Schneider Electric Australia Limited. He was also marketing manager at Schneider Electric SA, based in Singapore. Between 1995 and 1999, he was the plant manager of Systèmes Equipements Tableaux Basse Tension SA in France and general manager of Merlin Gerin Loire SA from 1999 to 2001. In 2001, Mr. Rondolat was appointed country manager of Schneider Electric Industries SAS. From 2006 to 2009, he was executive vice president of its power business unit and in 2010 Mr. Rondolat became executive vice president of the power Asia-Pacific business. In 2012, Mr. Rondolat joined Royal Philips and was appointed executive vice president and chief executive officer of its lighting business.



## *René van Schooten*

Cornelis (René) Leonardus van Schooten, chief financial officer and member of the Board of Management, as well as BG Lamps leader, is a Dutch national. Mr. van Schooten obtained degrees in industrial engineering and management science from the Eindhoven University of Technology and completed an advanced management program at the Wharton Business School of the University of Pennsylvania. He further completed the new board programme at the Nyenrode Business University. From 1982 to 1988, Mr. van Schooten worked in various financial positions at Esso Nederland B.V. and Esso Europe Inc. He joined Unilever Nederland B.V. in 1988, working in several managerial positions, including as senior management accountant/controller, finance and accounting director, special committee secretariat and senior finance manager in different European countries. In 1999, Mr. van Schooten joined Royal Philips in its lighting business as chief financial officer and controller of the lamps division and thereafter held positions as chief executive and head of operations in various divisions. Since 2012, he is business leader of BG Light Sources & Electronics (as of 2015 known as BG Lamps), one of the lighting businesses of Royal Philips. In 2015 he also became chief financial officer of the lighting business of Royal Philips.

### **Supervisory Board**

#### ***Powers, responsibilities and functioning***

The Supervisory Board supervises the policies and management and the general affairs of the Group. The Supervisory Board also provides advice to the Board of Management. In performing its duties, the members of the Supervisory Board will act in the interests of the Group, taking into consideration the interests of the Group's stakeholders (which includes but is not limited to its Shareholders, customers, its suppliers, and its employees). The Supervisory Board is responsible for the quality of its own performance. The Supervisory Board may, at the Company's expense and after having informed the chairman of the Supervisory Board and the CEO, seek the advice which it deems desirable for the correct performance of its duties.

#### ***Supervisory Board Rules***

Pursuant to the Articles of Association, the Supervisory Board may adopt written rules governing, among other things, its decision-making process and conduct of meetings. The Supervisory Board Rules effective ultimately on the Settlement Date (the "**Supervisory Board Rules**") are published on the Company's website under [www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company).

#### ***Composition, appointment and removal***

The Supervisory Board determines the number of members of the Supervisory Board. The members of the Supervisory Board are appointed by the General Meeting on the nomination of the Supervisory Board, which nomination may be binding.

If a member of the Supervisory Board is to be appointed, the Supervisory Board shall make a nomination which nomination may be binding. If the Supervisory Board makes a non-binding nomination, the nominated candidate is appointed by a resolution adopted by the General Meeting with a simple majority of the votes cast. If the Supervisory Board makes a binding nomination, the General Meeting may at all times overrule the binding nomination by a resolution adopted by a majority of the votes cast, provided that majority represents more than one-third of the issued share capital. If a majority of the votes is cast in favor of overruling the binding nomination, but that majority does not represent more than one-third of the issued share capital, a new General Meeting may be convened at which the resolution to overrule the binding nomination may be adopted by a simple majority of the votes cast, regardless of the issued share capital represented by that majority. In the event the candidate nominated by way of a non-binding nomination is not appointed or a binding nomination is overruled, the Supervisory Board may make a new nomination, which nomination may be binding. In the event that this candidate nominated by the Supervisory Board by way of a non-binding nomination is not appointed or if the relevant binding nomination is overruled, the General Meeting shall be free to appoint a member of the Supervisory Board to fill the vacancy. In that event the resolution to appoint a member of the Supervisory Board can be adopted by a simple majority of the votes cast.

Pursuant to the Relationship Agreement, the Selling Shareholder shall have the right, under the terms and conditions set out in the Relationship Agreement to nominate candidates for appointment as member of the Supervisory Board (see "Existing Shareholders and Related Party Transactions").

#### ***Term of appointment***

The Articles of Association do not provide for a fixed or maximum term of appointment. In line with the Dutch Corporate Governance Code, the members of the Supervisory Board (with the exception of Kees van Lede) will be appointed for a period of four years, it being understood that the period of their appointment will expire at the end of the annual General Meeting to be held in 2020.



Kees van Lede is currently a member of the supervisory board of the Selling Shareholder, from which he will resign on or before the Settlement Date. His extensive experience as supervisory director at the Selling Shareholder and various other listed companies will benefit the Company during its transition into an independent, publicly listed company. The term of his appointment will expire at the end of the Company's annual General Meeting to be held in 2018.

### ***Meetings and decisions***

According to the Supervisory Board Rules, resolutions of the Supervisory Board can only be adopted in a meeting at which at least one third of the members of the Supervisory Board is present or represented, comprising at least one Royal Philips Nominee (as long as a Royal Philips Nominee is in office). Each member of the Supervisory Board has one vote. As long as the Selling Shareholder's shareholding in the Company equals or exceeds 50% of the Ordinary Shares issued and outstanding, a resolution of the Supervisory Board to approve a resolution of the Board of Management regarding an issue of Shares or to grant rights to subscribe for Shares requires the affirmative vote of the Royal Philips Nominees. Furthermore, as long as the Selling Shareholder's shareholding in the Company equals or exceeds 30% of the Ordinary Shares issued and outstanding, resolutions of the Supervisory Board to determine the remuneration of the members of the Board of Management and to approve a resolution of the Board of Management to determine the remuneration of certain senior executives designated by the Supervisory Board, require the affirmative vote of the Royal Philips Nominee that is a member of the Supervisory Board's remuneration committee. The approval shall not be required if it concerns an issue of Shares or grant of rights to Shares to an employee of the Company or a Group company under any applicable employee share incentive plan.

The Supervisory Board meets at least six times a year. Meetings of the Supervisory Board are attended by the CEO and, if possible, by the other members of the Board of Management and the Company's general secretary, unless the Supervisory Board decides otherwise and save for certain meetings as described in the Supervisory Board Rules.

Pursuant to the Supervisory Board Rules, resolutions can, upon a proposal by or on behalf of the Chairman of the Supervisory Board, also be adopted in writing or without holding a meeting if (i) a proposal for such resolution has been sent to all members; (ii) no member has objected to adopting a resolution in writing; and (iii) more than half of the members entitled to vote have voted in favor of the resolution.

### ***Conflict of interest***

Similar to the rules that apply to the members of the Board of Management as described above, Dutch law also provides that a supervisory director of a Dutch public limited liability company, such as the Company (under its governance effective ultimately on the Settlement Date), may not participate in the adoption of resolutions (including deliberations in respect of these) if he or she has a direct or indirect personal interest conflicting with the interests of the company.

Each member of the Supervisory Board (other than the chairman of the Supervisory Board) shall immediately report any (potential) conflict of interest, as described above or in the meaning of the Dutch Corporate Governance code, to the chairman of the Supervisory Board and must provide him with all information relevant to the (potential) conflict. In case the chairman of the Supervisory Board has a (potential) conflict of interest he shall immediately report such (potential) conflict to the vice-chairman of the Supervisory Board and shall provide all information relevant to the (potential) conflict of interest.

If no resolution can be adopted by the Supervisory Board as a consequence of personal conflicts of interests of all Supervisory Directors, the relevant resolution will be referred to the General Meeting. All transactions in which there are conflicts of interests with members of the Supervisory Board will be agreed on terms that are customary in the sector concerned and disclosed in the Company's annual report.

### *Supervisory Board*

On the Settlement Date, the Supervisory Board will be composed of the following five members:

<b>Name</b>	<b>Date of birth</b>	<b>Position</b>	<b>Member as of</b>	<b>Term/maximum</b>
Arthur van der Poel	1 November 1948	Chairman	Settlement Date	4 year term expiring at the end of the annual General Meeting to be held in 2020
Frans van Houten	26 April 1960	Vice-Chairman	Settlement Date	4 year term expiring at the end of the annual General Meeting to be held in 2020
Rita Lane	24 October 1962	Member	Settlement Date	4 year term expiring at the end of the annual General Meeting to be held in 2020
Kees van Lede	21 November 1942	Member	Settlement Date	2 year term expiring at the end of the annual General Meeting to be held in 2018
Abhijit Bhattacharya	18 October 1961	Member	Settlement Date	4 year term expiring at the end of the annual General Meeting to be held in 2020

The Company's registered address, High Tech Campus 45, 5656 AE Eindhoven, the Netherlands, serves as the business address for all members of the Supervisory Board.

#### *Kees van Lede*

Cornelis Josephus Antonius van Lede, member of the Supervisory Board, Chairman of the Audit Committee and Chairman of the Remuneration Committee, is a Dutch national. Mr. van Lede obtained an MBA at INSEAD, Paris and a master's degree in law at Leiden University. Mr. van Lede worked at McKinsey as a consultant from 1967 until 1976. From 1976 until 1984 he was a member of the board of Nederhorst Bouw and HBG. In 1984, Mr. van Lede was appointed chairman of VNO-NCW and in 1991 he joined Akzo Nobel N.V. as a member of the board, and thereafter served as chairman of the management board between 1994 and 2003. In 1995 he was appointed chairman of the supervisory board of Puissance B.V. and Mr. van Lede currently still holds this position. During the period between 2002 and 2012, Mr. van Lede was the non-executive director of Sara Lee Corporation. After the separation, Mr. van Lede was non-executive director of D.E. Master Blenders 1753 N.V. between 2012 and 2014. Mr. van Lede joined the supervisory board of Heineken N.V. in 2003 and was chairman of the supervisory board until 2014. From 2003 until 2015, he was a member of the supervisory board of Air Liquide S.A. Mr. van Lede was appointed as non-executive director of Air France KLM S.A. in 2004 and in 2005 he was appointed senior adviser to JP Morgan Plc. Furthermore, Mr. van Lede was member of the supervisory board of Koninklijke Makkumer Aardewerk- en Tegelfabriek B.V. from 2005 to 2014 and of Royal Imtech N.V. from 2013 to 2015. In 2009 he became chairman of Stichting Lauwerecht and in 2003 he joined Royal Philips as member of the supervisory board.

#### *Abhijit Bhattacharya*

Abhijit Bhattacharya, member of the Supervisory Board, member of the Audit Committee and member of the Remuneration Committee, is an Indian national. Mr. Bhattacharya obtained a master's degree in Commerce majoring in finance, accounting and economics from Sydenham College of Commerce and Economics in Mumbai, India. Mr. Bhattacharya is an Associate of the Institute of Cost and Management Accountants in India. Mr. Bhattacharya joined Royal Philips in 1987 and held various senior management positions in the company in Asia Pacific, Europe and the United States. Mr. Bhattacharya assumed global responsibility as financial controller for Royal Philips' domestic appliance and personal care businesses in 2000 until 2004, based in the Netherlands. In 2004, he was appointed senior vice president and financial controller for multi-market semiconductors in Royal Philips' semiconductor business, and held that position until 2006 and in 2006 he was

appointed senior vice president and financial controller for multi-market semiconductors at NXP Semiconductors N.V. and held that position until 2008. In 2008, Mr. Bhattacharya was appointed executive vice president and chief financial officer of ST-NXP Wireless (holding) AG and was a member of its executive committee until 2009. In 2009, Mr. Bhattacharya was appointed as the head of operations and quality and a member of the executive management team of the joint venture ST-Ericsson, who operated through ST-Ericsson Holding AG. He held this position until 2010. Mr. Bhattacharya returned to Royal Philips in 2010 and was appointed executive vice president, heading investor relations until 2013, when he became chief financial officer of the healthcare business. He was chief financial officer of the healthcare business until 2014. In 2014, Mr. Bhattacharya was appointed as chairman of the project team responsible for the separation of the lighting business from Royal Philips and held this position until 2015. In 2015, Mr. Bhattacharya was appointed as executive vice president and chief financial officer of the lighting business. Subsequently, Mr. Bhattacharya was appointed chief financial officer and executive vice president of Royal Philips.

#### *Frans van Houten*

Francois Adrianus van Houten, member of the Supervisory Board and member of the Nomination & Selection Committee, is a Dutch national. Mr. van Houten gained a master's degree in economics and business management at the Erasmus University. He joined Royal Philips in 1986 and held various managerial positions, including co-chief executive officer of the consumer electronics business. From 2004 to 2009, he was chief executive officer at NXP Semiconductors N.V. (formerly Philips Semiconductors). From 2009 to 2010, he led a consultancy practice and was senior advisor to the board of ING Group N.V. In 2011, Mr. van Houten was appointed chief executive officer and chairman of Royal Philips' executive committee and board of management. Since 2011 he is a member of the European Round Table of Industrial Companies. Mr. van Houten holds non-executive board positions in the following non-profit foundations: Erasmus Trustfund, Worldexpo Rotterdam 2025 and NL2025.

#### *Rita Lane*

Rita Suganomiya Lane, member of the Supervisory Board and member of the Audit Committee, is a U.S. national. Ms. Lane obtained a bachelor's degree in electrical engineering from the United States Air Force Academy, a master's degree in electrical engineering from Purdue University and a master's degree in business administration from the University of California, Berkeley. She started her career at the United States Air Force as lieutenant in 1984. From 1991 to 2006, Ms. Lane held various managerial positions at International Business Machines Corporation, including vice president integrated supply chain of various divisions. She worked as senior vice president integrated supply chain, chief procurement officer and corporate vice president at Motorola, Inc. in the period 2006 to 2008. In the period 2008 to 2011, she was a member of the board of directors of Out & Equal. From 2008 to 2014, Ms. Lane worked as vice president operations at Apple Inc. In 2010, she became member of the advisory board of Purdue University School of Electrical & Computer Engineering and currently still holds this position. In 2014, Ms. Lane became a supply chain advisor as owner of Hajime, LLC and still holds this position. She became member of the board of directors of Friends of Master Gardeners of Santa Clara County in 2015 and was appointed member of the board of directors of DOTS Devices, Inc. in 2016.

#### *Arthur van der Poel*

Arthur Petrus Maria van der Poel, chairman of the Supervisory Board, chairman of the Nomination & Selection Committee and member of the Remuneration Committee, is a Dutch national. Mr. van der Poel obtained a master's degree in telecommunications engineering at Eindhoven University of Technology. Mr. van der Poel joined Royal Philips in 1984 and held various management positions in the consumer integrated circuit business of the semiconductor division. From 1996 to 2001, Mr. van der Poel was the chief executive officer of the semiconductors division. He served as a member of the board of management of Koninklijke Philips Electronics N.V. from 1998 to 2003. He was member of the supervisory Board of P.S.V. N.V. from 1999 until 2011. In 2004, Mr. van der Poel was appointed member of the supervisory board of ASML Holding N.V. and was chairman of the supervisory board from 2007 until April 2016. He was member of the supervisory board of DHV B.V., later named Royal HaskoningDHV B.V. from 2004 until 2014. From 2004 to 2015, he was a member of the board of directors of Axalto that, after the merger with Gemplus in 2006, became Gemalto Holding N.V. In 2012, Mr. van der Poel was appointed member of the supervisory board of BDR Thermea Group B.V. and became chairman of the supervisory board in 2013. Mr van der Poel still holds this position. In January 2016 he was appointed member of the supervisory board of VanderLande Industries Holding B.V. and became chairman of the supervisory board in March 2016 and currently still holds this position.

#### ***Supervisory Board Committees***

The Supervisory Board has an Audit Committee, a Corporate Governance and Nomination & Selection Committee and a Remuneration Committee. Each of the committees has a preparatory and/or advisory role to the Supervisory Board. In accordance with the Supervisory Board Rules, the Supervisory Board has drawn up rules

on each committee's role, responsibilities and functioning. The committees consist of members of the Supervisory Board. They report their findings to the Supervisory Board, which is ultimately responsible for all decision-making.

#### *Audit Committee*

The duties of the Audit Committee include advising the Supervisory Board in fulfilling its oversight responsibilities for the integrity of the Company's financial statements and the Company's internal business controls and risk management. The Audit Committee reviews the financial information to be disclosed by the Company, the compliance with recommendations of internal and external accountants, the Company's policy on tax planning, the Company's financing arrangements, assists the Supervisory Board with the Company's information and communications technology. It furthermore maintains contact with and supervises the external accountant and it prepares the nomination of an external accountant for appointment by the General Meeting. The Audit Committee meets at least before the publication of the Annual Accounts of the Company.

The Audit Committee will consist of C.J.A. van Lede (chairman), A. Bhattacharya, R.S. Lane.

The charter of the Audit Committee is published on the Company's website under [www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company).

#### *Corporate Governance and Nomination & Selection Committee*

The Corporate Governance and Nomination & Selection Committee advises the Supervisory Board on its duties regarding the (procedures for the) selection and appointment of members of the Supervisory Board and the members of the Board of Management. The duties of the Corporate Governance and Nomination & Selection Committee include preparing the selection criteria and appointment procedures for members of the Supervisory Board and the members of the Board of Management and proposing the profile for the Supervisory Board. It also periodically assesses the size and composition of the Board of Management and the Supervisory Board, and the functioning of the individual members. The Corporate Governance and Nomination & Selection Committee also proposes on appointments and reappointments. It supervises the policy on selection criteria and appointment of senior executives within the Group. At least once a year it reviews the corporate governance of the Company and can make recommendations to the Supervisory Board relating to the corporate governance of the Company. The Corporate Governance and Nomination & Selection Committee meets at least twice every year.

The Corporate Governance and Nomination & Selection Committee will consist of A.P.M. van der Poel (chairman) and F.A. van Houten

The charter of the Corporate Governance and Nomination & Selection Committee is published on the Company's website under [www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company).

#### *Remuneration Committee*

The Remuneration Committee advises the Supervisory Board on the exercise of its duties regarding the remuneration policy for the Board of Management, and preparing proposals for the Supervisory Board on these subjects. The duties of the Remuneration Committee include the preparation of proposals of the Supervisory Board on the remuneration of the individual members of the Board of Management and the Supervisory Board and the decision-making by the Supervisory Board regarding the approval and the decision-making of the remuneration of certain senior executives. The Remuneration Committee reviews and prepares proposals for the Supervisory Board concerning the corporate goals and objectives relevant to the annual incentive of members of the Board of Management and reviews the performance of members of the Board of Management in light of those goals and objectives and it prepares proposals for the Supervisory Board on the compensation levels of the members of the Board of Management based on such review. The Remuneration Committee also exercises oversight over the development, implementation and administration of the Company's compensation programs for members of the Board of Management. The Remuneration Committee meets at least twice every year.

The Remuneration Committee will consist of C.J.A. van Lede (chairman), A. Bhattacharya and A.P.M. van der Poel.

The charter of the Remuneration Committee is published on the Company's website under [www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company).

#### **Restrictions on Number of Supervisory Positions of members of the Board of Management and Supervisory Board**

Dutch law restricts the overall number of supervisory positions that a member of the Board of Management or Supervisory Board (including a one-tier board) of "large Dutch companies" may hold if such company qualified as large Dutch company on two successive balance sheet dates and without interruption thereafter on two successive balance sheet dates. The term "large Dutch companies" applies to Dutch public limited liability companies, Dutch private limited liability companies and Dutch foundations: (i) the value of the company's/

foundation's assets according to its balance sheet together with explanatory notes, on the basis of the purchase price or manufacturing costs exceeds €20 million; (ii) its net turnover in the applicable year exceeds €40 million; and (iii) its average number of employees in the applicable year is 250 or more.

A person cannot be appointed as a managing or executive director of a "large Dutch company" if he/she already holds a supervisory position at more than two other "large Dutch companies" or if he/she is the chairman of the supervisory board or one-tier board of another "large Dutch company". Also, a person cannot be appointed as a supervisory director or non-executive director of a "large Dutch company" if he/she already holds a supervisory position at five or more other "large Dutch companies", whereby the position of chairman of the supervisory board or one-tier board of another "large Dutch company" is counted twice.

As the Company was incorporated in 2016 and a company has to meet the relevant criteria on two consecutive balance sheet dates and without interruption, on two consecutive balance sheet dates thereafter, the Company does not (yet) qualify as a large Dutch company.

The Dutch Corporate Governance Code restricts the overall number of supervisory positions that a member of the Board of Management may hold. A member of the Board of Management may not be a member of the supervisory board of more than two listed companies. Nor may a member of the Board of Management be the chairman of the supervisory board of a listed company. Under the Dutch Corporate Governance Code, the number of supervisory boards of Dutch listed companies of which a member of the Supervisory Board may be a member is limited to five, for which purpose the chairmanship of a supervisory board counts double.

### **Diversity**

Until 1 January 2016, Dutch law required large Dutch companies (as described above) to pursue a policy of having at least 30% of the seats on both the board of management and supervisory board held by men and at least 30% of the seats on the board of management and supervisory board held by women, each to the extent these seats are held by natural persons. Under Dutch law, this was referred to as a well-balanced allocation of seats. This allocation of seats needed to be taken into account in connection with: (i) the appointment, or nomination for the appointment, of members of the board of management; (ii) drafting the criteria for the size and composition of the board of management and supervisory board, as well as the designation, appointment, recommendation and nomination for appointment of supervisory board members; and (iii) drafting the criteria for the non-executive directors, as well as nomination, appointment and recommendation of non-executive directors. If a Dutch large company did not comply with the gender diversity rules, it was required to explain in its management report (i) why the seats were not allocated in a well-balanced manner, (ii) how it had attempted to achieve a well-balanced allocation and (iii) how it aimed to achieve a well-balanced allocation in the future.

This rule was a temporary measure and automatically ceased to have effect on 1 January 2016. However, on 23 March 2016, the responsible Dutch Minister has submitted a legislative proposal to Dutch Parliament in which it is proposed to reinstate this rule and extend its application until 1 January 2020.

As set out above, the Company does not (yet) qualify as a large Dutch Company.

### **Potential Conflicts of Interest and Other Information**

The Company is not aware of any potential conflicts between the personal interests or other duties of members of the Board of Management and/or the members of the Supervisory Board on the one hand and the interests or other duties of the Company on the other hand. There is no family relationship between any members of the Board of Management and any members of the Supervisory Board.

During the last five years, none of the members of the Board of Management or the Supervisory Board: (i) has been convicted of fraudulent offenses; (ii) has served as a director or officer of any entity subject to bankruptcy proceedings, receivership or liquidation; or (iii) has been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies), or disqualification by a court from acting as a member of the administrative, management or supervisory body of an issuer, or from acting in the management or conduct of the affairs of any issuer. Mr. van Lede was a member of the supervisory board of Royal Imtech N.V. (August 2013 to May 2015) prior to its bankruptcy in August 2015.

Other than the Separation Agreement and the Relationship Agreement, the Company is not aware of any arrangement or understanding with major Shareholders, suppliers, customers or others pursuant to which any members of the Board of Management or Supervisory Board was selected as a director of such management or supervisory bodies of the Company.

### **Remuneration**

The Company was incorporated on 1 February 2016 and therefore did not have any members of the Board of Management or Supervisory Board or key officers for the year ended 31 December 2015 and no historical compensation details for any of these persons can be provided.



## **Board of Management Remuneration**

The remuneration of the individual members of the Board of Management, has been established in accordance with the Board of Management remuneration policy as adopted. It is expected that the remuneration policy will be reconsidered after the Settlement Date and that a revised policy will be submitted for approval by the General Meeting in 2017.

The compensation package for the members of the Board of Management will consist of the following fixed and variable components which are discussed in more detail below:

- base salary;
- annual cash bonus (short-term incentive);
- long-term incentive; and
- pensions and other benefits.

### ***Remuneration components***

#### *Base salary*

The base salary of the members of the Board of Management aims to reflect the responsibility and scope of their role, taking into account level of seniority and experience. The base salary of each member of the Board of Management is a fixed cash compensation paid on a monthly basis and is based on benchmark research by independent external expert advisers. The total base salary is targeted to be the median of various reference groups. These reference groups are established based on industry, ownership type, geographical business scope and size parameters. The base salary can be adjusted by the Supervisory Board in accordance with the remuneration policy.

#### *Annual bonus (short-term incentive)*

Each year, members of the Board of Management are eligible for a short-term incentive in the form of an annual cash bonus. The CEO is eligible for an at target annual bonus between 80% and 120% of his base salary, while the CFO is eligible for an at target annual bonus between 60% and 100% of his base salary. In both cases the maximum bonus is capped at twice the target amount. The objective of the annual bonus is to reward annual financial and non-financial, Group and individual performance. The total annual bonus depends on the achievement of specific targets. The targets are determined annually by the Supervisory Board and consist of a mix of financial and non-financial performance measures. Annual bonuses are subject to certain claw back provisions pursuant to the Code and Dutch law.

#### *Long-term incentive*

As of the date of this Prospectus, the Company does not have any incentive plan for remuneration in the form of Ordinary Shares or rights to subscribe for Ordinary Shares either for members of the Board of Management or other employees of the Group in a senior management position within the Group. It is expected that a long-term incentive plan will be drawn up and submitted for approval by the General Meeting in 2017.

Subject to the terms and conditions of such long-term incentive plan, the current CEO shall be entitled to an on target long-term incentive grant equaling 100% of his annual base salary, while the current CFO shall be entitled to an on target long-term incentive grant equaling 80% of his annual base salary. Long-term incentives are subject to certain claw back provisions pursuant to the Code and Dutch law.

The members of the Board of Management and certain other employees and former employees allocated to the Group have been awarded performance shares and certain restricted share rights of the Selling Shareholder pursuant to the existing long-term incentive plans of the Selling Shareholder. These awards will not change as a direct result of Settlement and, pursuant to the Separation Agreement, the costs related to the relevant awards will be charged by the Selling Shareholder to the Company.

#### *Pensions and other benefits*

Members of the Board of Management are eligible to receive post-employment benefits by participating in one of the Company's pension plans. See “—Pension Schemes” for more information.

Members of the Board of Management are also entitled to other benefits, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements.

#### *Severance arrangements*

Contractual severance arrangements of members of the Board of Management comply with the Code. See “—Corporate Governance Code—Compliance with the Code”.

### ***Adjustments to variable remuneration***

Pursuant to Dutch law and the Dutch Corporate Governance Code, the remuneration of members of the Board of Management may be reduced or members of the Board of Management may be obliged to repay (part of) their variable remuneration to the Company if certain circumstances apply.

Pursuant to the Code, any variable remuneration component conditionally awarded to a member of the Board of Management in a previous financial year which would, in the opinion of the Supervisory Board, produce an unfair result due to extraordinary circumstances during the period in which the predetermined performance criteria have been or should have been applied, the Supervisory Board will have the discretionary power to adjust the value downwards or upwards. In addition, the Supervisory Board will have the authority under the Code and Dutch law to recover from a member of the Board of Management any variable remuneration awarded on the basis of incorrect financial or other data (claw back).

Pursuant to Dutch law, the Supervisory Board may furthermore adjust the variable remuneration (to the extent that it is subject to reaching certain targets and the occurrence of certain events) to an appropriate level if payment of the variable remuneration were to be unacceptable according to the requirements of reasonableness and fairness.

In addition, Dutch law prescribes that, in case the value of the Shares granted by the Company to the respective members of the Board of Management increases during a period in which a public takeover bid is made for the Shares in the share capital of the Company, the remuneration of that respective member of the Board of Management will be reduced by the amount by which the value of the Shares granted by the Company to such member of the Board of Management has increased. Similar provisions apply in the situation of an intended legal merger or demerger, or if the Company intends to enter into certain transactions that are of such significance to the Company that the Board of Management requires the approval of the General Meeting pursuant to Dutch law (*i.e.*, transactions that fall within the scope of section 2:107a DCC).

### ***Remuneration of the Board of Management***

The remuneration of the Board of Management for the year ending 2016 will comprise of a fixed and variable part, including base salary, a bonus, post-employment benefits and other benefits. The table below sets forth the “at target” annual remuneration of the members of the Board of Management as of the date of their appointment. The amount of the variable remuneration component assumes that all targets are met for the reference year.

<b>Name</b>	<b>Base salary</b>	<b>Variable remuneration</b>	<b>Pension costs</b>	<b>Total</b>
Eric Rondolat . . . . .	€850,000	€680,000	€341,000	€1,871,000
René van Schooten . . . . .	€525,000	€315,000	€220,000	€1,060,000

As of the date of this Prospectus, the Company has not provided any personal loans, advances or guarantees to members of the Board of Management.

### **Supervisory Board Remuneration**

The General Meeting determines the remuneration of the members of the Supervisory Board. The Supervisory Board will submit a proposal to the General Meeting in respect thereof. The remuneration of the Supervisory Board cannot be dependent on the Company’s results.

None of the members of the Supervisory Board may receive Shares or options for Shares as part of their remuneration. None of the members of the Supervisory Board may hold Shares, options for Shares or similar securities other than as a long-term investment. The members of the Supervisory Board may also not hold such securities, other than in accordance with the rules on holding or transacting in the Company’s securities.

### ***Remuneration of the Supervisory Board***

The chairman of the Supervisory Board will receive an annual retainer of €110,000, the vice-chairman will receive an annual retainer of €85,000 and other members will each receive €75,000 annually for their services as of the date of their appointment. In addition, the chairman and each member of the Audit Committee will receive an annual fee of €22,500 and €13,000, respectively. The chairman and each member of the Remuneration Committee will receive an annual fee of €15,000 and €10,000, respectively. The chairman and each member of the Corporate Governance and Nomination & Selection Committee will receive an annual fee of €15,000 and €7,500, respectively. A €5,000 travel allowance per meeting applies for members of the Supervisory Board who travel intercontinentally to attend a meeting or €2,500 who travel within the same continent. The Royal Philips Nominees will not receive an annual fee as part of their remuneration by the Group.

As of the date of this Prospectus, the Company has not provided any personal loans, advances or guarantees to members of the Supervisory Board.

### ***Pensions for the Supervisory Board***

As of the date of this Prospectus, there are no amounts reserved or accrued by the Company or its subsidiaries to provide pension, benefit, retirement or similar benefits for current members of the Supervisory Board.

### **Equity Holdings**

As of the date of this Prospectus, none of the members of the Board of Management or the Supervisory Board hold any Ordinary Shares or options on Ordinary Shares.

The CEO has agreed with the Selling Shareholder that it will sell to him and that he will purchase, conditional on Settlement of the Offering, Ordinary Shares in amounts of approximately €500,000 at the Offer Price. The CFO has agreed with the Selling Shareholder that it will sell to him and that he will purchase, conditional on Settlement of the Offering, Ordinary Shares in amounts of approximately €250,000 at the Offer Price.

### **Equity Plans**

As of the date of this Prospectus, the Company does not have a long-term incentive plan for remuneration in the form of Ordinary Shares or rights to subscribe for Ordinary Shares for members of the Board of Management. A new long-term incentive plan for the Group is expected to be established, subject to the prior approval of the General Meeting, in 2017.

### **Employment, Service and Severance Agreements**

As of the date of this Prospectus, the CEO is employed by the Selling Shareholder, and the CFO is employed by Philips Lighting Holding B.V., a subsidiary of the Group. The terms and conditions of employment are governed by Dutch employment law. Each member of the Board of Management is expected to enter into a service agreement (*overeenkomst van opdracht*) with the Company effective as of the Settlement Date. The terms and conditions of these service agreements have been aligned with the Code. The service contracts will be entered into for a period of four years for both members entering the service and members who are already in service of the Company or the Selling Shareholder. The service contracts will also contain severance provisions which provide for compensation for the loss of income resulting from a termination of employment with a maximum of one year's base compensation. The members of the Supervisory Board do not have an employment, service or severance contract with the Company.

### **Liability of members of the Board of Management and Supervisory Board**

Under Dutch law, the members of the Board of Management and Supervisory Board may be liable towards the Company for damages in the event of improper or negligent performance of their duties. They may be jointly and severally liable for damages towards the Company for infringement of the Articles of Association or of certain provisions of the DCC. In addition, they may be liable towards third parties for infringement of certain provisions of the DCC. In certain circumstances, they may also incur additional specific civil and criminal liabilities.

### **Insurance**

Members of the Board of Management and Supervisory Board and certain other directors or officers of the Group are insured under an insurance policy, in effect on or prior to the Settlement Date, taken out by the Company against damages resulting from their conduct when acting in their capacities as directors or officers.

### **Indemnification**

Pursuant to the Articles of Association, and unless Dutch law provides otherwise, the following will be reimbursed to current and former members of the Board of Management and members of the Supervisory Board: (i) the reasonable costs of conducting a defense against claims based on action or inaction in exercising their duties or any other duties in another position they are fulfilling or have fulfilled at the Company's request; (ii) any damages or fines payable by them as a result of actions or inactions as mentioned under (i); (iii) the reasonable costs of appearing in any other legal proceedings that they are involved in as a current or former member of the Board of Management or Supervisory Board, with the exception of proceedings primarily aimed at pursuing a claim on their own behalf; and (iv) any tax claims as a result of a reimbursement in accordance with the foregoing.

There shall be, however, no entitlement to reimbursement if and to the extent that (i) it has been established in a final and conclusive decision of a Dutch court or, in the event of arbitration, by an arbitrator, that the action or inaction of the person concerned can be characterized as deliberate, willfully reckless or seriously culpable, unless Dutch law provides otherwise or this would be unacceptable in the given circumstances according to standards of reasonable and fair conduct; or (ii) the person's costs or financial losses are covered by insurance and the insurer has paid out these costs or financial losses.

## **Pension Schemes**

The Group operates various post-employment schemes, including both defined benefit and defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a post-employment benefit plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability in respect of defined benefit pension plans is the present value of the defined benefit of obligations at the balance sheet date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and which have terms of maturity approximating the terms of the related pension obligation.

The Group operates defined benefit plans in a number of countries, of which the largest are in Germany and the United States and such German and U.S. pension plans (including the U.S. post-employment healthcare benefit plans as discussed below) represented the great majority of the total defined benefit liabilities of the Group as of 31 March 2016. The defined benefit plans of the Group in the United States cover current and former employees of the relevant U.S. subsidiaries of the Group. The Group pays additional contributions to cover a deficit, if any, and the plans are subject to indexation (not mandatory). The defined benefit plans of the Group in Germany cover retirement, disability and death, are the result of direct promises from the relevant German subsidiaries of the Group to current and former employees of such German subsidiaries and are subject to minimum annual indexation and accrued interest. In 2013, IAS 19R (an accounting rule which outlines the accounting requirements for the Company of employee benefits) was implemented: actuarial gains and losses related to both defined benefit of obligation and fair value of plan assets arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognized immediately in the income statement.

In a number of countries the Group runs defined contribution plans. The contributions are recognized as employee benefit expense when they are due. The Group has no further payment obligations once the contributions have been paid. In the Netherlands, the pension schemes are collective defined contribution schemes which cover retirement, death and disability. The employer contributes a level premium and cannot be held liable to make additional contributions to such pension scheme. If the total contributions prove to be insufficient to fund the targeted level of pension accruals in a certain year, the accrual of the employees' pension benefits is decreased (*i.e.*, annual accrual ambition).

In a number of countries in which the Group operates, the Group provides post-employment healthcare benefits to their retirees, of which the largest plan is in the United States. The benefits provided by these plans typically cover a part of the healthcare insurance costs after retirement and such plans are unfunded. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and includes the estimation that (former) employees make use of this arrangement. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for the defined benefit pension plans.

## **Trade Union Relations and Works Council**

A Works Council is a body of employee representatives who have been elected by the employees. Under Dutch law, the management board of any company running an enterprise where a Works Council has been established must seek the non-binding advice of the Works Council before taking certain decisions with respect to the enterprise, such as those related to a major restructuring, a change of control, or the appointment or dismissal of a managing director. Certain other decisions directly involving employment matters that apply either to all employees or certain groups of employees may only be taken with the works council's consent. The Company has not established a Works Council.

In the Netherlands, Philips Lighting B.V. has established a Works Council. As Philips Lighting B.V. is governed by the mitigated large company regime (*gemitigeerd structuurregime*), its Works Council has a right to

recommend candidates for appointment to the supervisory of Philips Lighting B.V. For one third of the positions of in the supervisory board of Philips Lighting B.V., its Works Council has an enhanced right of recommendation (*versterkt aanbevelingsrecht*).

In certain other jurisdictions, certain other subsidiaries of the Company have established Works Councils as well.

## Employees

The table below provides an overview of the total numbers of FTEs at year-ends (except for 2016) of the Group, subdivided per Business Group and Market Group.

	<u>Q1 2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>FTEs per Business Group</b>				
BG Lamp .....	16,979	17,032	19,877	23,699
BG LED .....	2,695	2,534	3,218	1,869
BG Professional .....	10,408	10,611	11,055	9,378
BG Home .....	1,851	1,506	2,084	2,508
Other .....	4,417	5,716	5,401	4,939
<b>Total .....</b>	<b>36,350</b>	<b>37,399</b>	<b>41,634</b>	<b>42,393</b>
<b>FTEs per Market Group<sup>39</sup></b>				
Americas .....	9,277	9,578	10,182	10,650
Europe .....	13,893	14,136	15,408	15,963
Growth Markets .....	7,168	7,633	8,898	8,034
Greater China .....	6,012	6,052	7,146	7,746
<b>Total .....</b>	<b>36,350</b>	<b>37,399</b>	<b>41,634</b>	<b>42,393</b>

As of 31 March 2016, the Group employed a total of 4,060 temporary employees.

## Corporate Governance Code

The Code applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere. The Code therefore applies to the Company. The Code contains a number of principles and best practice provisions in respect of managing boards, supervisory boards, shareholders and the general meeting, financial reporting, auditors, disclosure, compliance and enforcement standards.

The Company is required to disclose in its annual report whether or not it applies the provisions of the Code and, if it does not apply those provisions, to explain the reasons why.

### *Compliance with the Code*

The Company fully endorses the underlying principles of the Code, and is committed to adhering to the best practices of the Code as much as possible.

The Company fully complies with the Code except for Best Practice Provision III.2.1. This provision states that all members of the Supervisory Board, with the exception of not more than one person, must be independent in the meaning of the Dutch Corporate Governance Code. A member of the board of management of a company that holds 10% or more of the shares in the issued share capital of the company concerned does not qualify as independent. Therefore, as long as the Selling Shareholder holds ten percent or more of the Shares, both Royal Philips Nominees, F.A. van Houten and A. Bhattacharya, do not qualify as independent.

<sup>39</sup> Includes all FTEs, including employees who work in enabling functions and BGs.



## DESCRIPTION OF SHARE CAPITAL

The following paragraphs summarize certain information concerning the Company's share capital and certain material provisions of the Articles of Association as in effect ultimately on the Settlement Date and applicable Dutch law.

The Articles of Association in the governing Dutch language and in an unofficial English translation thereof are available on the Company's website ([www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company)). See also "Management, Employees and Corporate Governance" for a summary of certain material provisions of the Articles of Association, Board of Management Rules, Supervisory Board Rules and Dutch law relating to the Board of Management and the Supervisory Board.

### General

The Company was incorporated as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) under the laws of the Netherlands on 1 February 2016 and was named Philips Lighting NewCo B.V. The Company will be converted to a public company with limited liability (*naamloze vennootschap*) ultimately on the Settlement Date pursuant to a notarial deed of conversion and amendment (the "Deed of Amendment"). The legal and commercial name of the Company will then become Philips Lighting N.V. The corporate seat of the Company is in Eindhoven, and its registered office is at High Tech Campus 45, 5656 AE Eindhoven (telephone number +31 40 2791111). The Company is registered in the Commercial Register of the Chamber of Commerce (Handelsregister van de Kamer van Koophandel) under number 65220692.

### Corporate Purpose

Pursuant to article 2.2 of the Articles of Association, the corporate objects of the Company are to establish, participate in, administer and finance legal entities, companies and other legal forms for the purpose of the development (including research) and manufacture of, and trading in, electrical and electronic products and the exploitation of technical and other expertise (including software), in particular products and expertise relating to light sources, luminaires, lighting electronics and controls to application-specific lighting systems and services and its natural successors, or for the purpose of other activities, and to do everything pertaining to or connected with the above, including providing security in any way and binding the Company for commitments of third parties, including companies which belong to its group, all this in the widest sense, as may also be conducive to the proper continuity of the collectivity of business undertakings, in the Netherlands and abroad, which are carried on by the Company and the companies in which it directly or indirectly participates.

### Share Capital

#### *Authorized and issued share capital of the Company*

Under the Articles of Association, the authorized share capital of the Company is €6,000,000 divided into 300,000,000 Ordinary Shares with a nominal value of €0.01 each and 300,000,000 Preference Shares with a nominal value of €0.01 each. The issued and outstanding share capital of the Company is €1, divided into one hundred Ordinary Shares and no Preference Shares. On or prior to the Settlement Date, the Company will issue 149,999,900 Ordinary Shares to the Selling Shareholder, as a result of which the issued share capital of the Company will amount to EUR 1,500,000 divided into 150,000,000 Ordinary shares and no Preference Shares. All issued Shares are fully paid up and subject to, and have been created under, the laws of the Netherlands.

#### *History of share capital*

Since its incorporation, the Company has issued the following Ordinary Shares:

<u>Date</u>	<u>Number of Ordinary Shares</u>
1 February 2016	1 with a nominal value of €1 each (which Share was split into 100 Ordinary Shares with a nominal value of €0.01 each on 2 May 2016)

No Preference Shares have been issued since the incorporation of the Company.

No Ordinary Shares or Preference Shares were acquired by the Company or by a subsidiary of the Company since its incorporation.

### Shareholders Register

The Shares are in registered form. The Company's shareholders register records the names and addresses of the Shareholders, the number and type of Shares held, the date on which registered shares were acquired, the date of acknowledgement and/or service upon the Company of the instrument of transfer, and the amount paid on

each Share. In addition, each transfer or passing of ownership is registered in the shareholders register. The shareholders register also includes the names and addresses of persons and legal entities with a right of pledge (*pandrecht*) or a right of usufruct (*vruchtgebruik*) on those Shares, the date on which they acquired such a right, the date of acknowledgment or service upon the Company of the instrument of transfer.

For shares as referred to in the Dutch Securities Giro Transactions Act (Wet giraal effectenverkeer), including the Offer Shares, which belong to (i) a collective depot as referred to in that Dutch Securities Giro Transactions Act, of which shares form part kept by an intermediary, as referred to in the Dutch Securities Giro Transactions Act or (ii) a giro depot as referred to in that Act of which shares form part, as being kept by a central institute as referred to in the Act, the name and address of the intermediary or the central institute shall be entered in the shareholders' register, stating the date on which those shares became part of such collective depot or giro depot, the date of acknowledgement by or giving of notice to, as well as the paid-up amount on each share.

### **Issuance of Shares**

The Board of Management, to the extent so authorized by the General Meeting for a specific period, may resolve to issue Shares. The Board of Management is only authorized to resolve to issue Shares subject to the approval of the Supervisory Board. An authorization as referred to above will only be valid for a fixed term of no more than five years and may each time only be extended for a maximum period of five years.

Pursuant to a written resolution of the General Meeting to be adopted on or prior to the Settlement Date, the Board of Management is authorized by the General Meeting to resolve to issue Ordinary Shares, to grant rights to subscribe for Ordinary Shares and to restrict and/or exclude statutory pre-emptive rights in relation to the issuances of Ordinary Shares or the granting of rights to subscribe for Shares. Aforementioned authorization of the Board of Management is limited to 10% of the total nominal issued share capital of the Company as of the Settlement Date plus an additional 10% of the nominal issued share capital of the Company as of the Settlement Date in connection with or on the occasion of mergers and acquisitions and strategic alliances and will be valid for 18 months following such date. As long as the Selling Shareholder's shareholding in the Company equals or exceeds 50% of the issued and outstanding Ordinary Shares, a resolution of the Supervisory Board to approve a resolution of the Board of Management to issue Shares or to grant rights to subscribe for Shares shall require the affirmative vote of the Royal Philips Nominees (as defined below). The affirmative vote shall not be required if it concerns an issue of Shares or grant of rights to Shares to an employee of the Company or a Group company under any applicable employee share incentive plan.

### **Pre-emptive Rights**

Upon issue of Ordinary Shares in return for a cash consideration, each holder of Ordinary Shares has a pre-emptive right in proportion to the number of Ordinary Shares which it owns. Shareholders do not have pre-emptive rights in respect of Shares issued against contribution in kind, Shares issued to employees of the Company or a Group Company or Shares issued to persons exercising a previously granted right to subscribe for Shares.

Pre-emptive rights may be limited or excluded by the Board of Management if the Board of Management is designated by the General Meeting to do so. The Board of Management is only authorized to resolve to exclude pre-emptive rights subject to the approval of the Supervisory Board. If the Board of Management has not been authorized to resolve to issue Shares, the General Meeting has the power, upon the proposal of the Board of Management, to restrict or exclude the pre-emptive rights. Such proposal must be approved by the Supervisory Board. A resolution of the General Meeting requires a majority of at least two-thirds of the vote cast if less than half of the issued share capital is represented at the General Meeting.

No pre-emptive rights exists upon the issue of Preference Shares. Holders of Preference Shares do not have a pre-emptive right in respect of Ordinary Shares.

As set out above, the Board of Management is authorized by the General Meeting to resolve to issue Ordinary Shares, to grant rights to subscribe for Ordinary Shares and to restrict and/or exclude statutory pre-emptive rights in relation to the issuances of Ordinary Shares or the granting of rights to subscribe for Shares. Aforementioned authorization of the Board of Management is limited to 10% of the total nominal issued share capital of the Company as of the Settlement Date plus an additional 10% of the nominal issued share capital of the Company as of the Settlement Date in connection with or on the occasion of mergers and acquisitions and strategic alliances and will be valid for 18 months following such date.

### **Acquisition by the Company of its Shares**

The Company may acquire fully paid-up Shares at any time for no consideration or, subject to Dutch law and the Articles of Association if: (i) its Shareholders' equity less the purchase price of the Shares is not less than

that laid down in relevant statutory provisions; (ii) the number of Shares in its capital which the Company acquires, holds or holds as pledgee, or which is held by a subsidiary, is not more than as permitted by law; and (iii) the Board of Management has been authorized by the General Meeting to repurchase Shares. The resolution of the Board of Management to repurchase Shares is subject to the Supervisory Board's approval.

The Board of Management has the power, without the authorization from the General Meeting but with the approval of the Supervisory Board, to acquire fully paid up Shares for the purpose of transferring these Shares to employees of a Group Company pursuant to any equity compensation plan applying to them provided that those Shares are quoted on an official list of a stock exchange.

The Company may not cast votes on Shares held by it nor will such Shares be counted for the purpose of calculating a voting quorum. The Board of Management is authorized, subject to approval of the Supervisory Board, to dispose of the Company's own Shares held by it.

Pursuant to a resolution of the General Meeting which is to be adopted on or prior to the Settlement Date, the Board of Management is authorized by the General Meeting to resolve to repurchase fully paid-up Ordinary Shares. Aforementioned authorization of the Board of Management is limited to 10% of the total nominal issued share capital as of the Settlement Date, which number may be increased by 10% of the total nominal issued share capital of the Company as of the same date in connection with the execution of share repurchase programs for capital reduction purposes, and will be valid for 18 months following such date.

### **Capital Reduction**

Subject to the provisions of Dutch law and the Articles of Association, the General Meeting, upon the proposal of the Board of Management, may resolve to reduce the issued share capital by (i) reducing the nominal value of the Shares through an amendment of the Articles of Association; (ii) cancellation of Shares held by the Company itself; or (iii) cancellation of all Shares of a specific class whereby the Ordinary Shares and the Preference Shares each qualify as a specific class. A partial repayment or release from the obligation to make further payment must be made proportionally on the Shares of a specific class. A proposal to reduce the issued share capital by the Board of Management must have been approved by the Supervisory Board. In the event all Shares of a specific class are cancelled, the amount paid up on those Shares and, where applicable, the share premium reserve connected to that specific class of Shares must be repaid and the Company must simultaneously grant release from the obligation to fully pay up those Shares to the extent that they have only been partially paid up. This does not apply to Preference Shares that are paid-up at the expense of the Protective Foundation Reserve of the Company.

A resolution of the General Meeting to reduce the share capital requires a majority of at least two-thirds of the votes cast, if less than half of the issued and outstanding share capital is present or represented at the General Meeting.

In addition, Dutch law contains detailed provisions regarding the reduction of capital. A resolution to reduce the issued share capital shall not take effect as long as creditors have legal recourse against the resolution. Certain aspects of taxation of a reduction of share capital are described in the section "Taxation" of this Prospectus.

Pursuant to a written resolution of the General Meeting which is to be adopted on or prior to the Settlement Date, the General Meeting resolved to cancel a number of Ordinary Shares up to the number of Ordinary Shares acquired by the Company under the share repurchase authorization, whereby the cancellation may be executed in one or more tranches and the number of Ordinary Shares that will be cancelled shall be determined by the Board of Management.

### **Transfer of Shares**

A transfer of a Share or a restricted right thereto (*beperkt recht*) requires a deed of transfer and the acknowledgment by the Company of the transfer in writing.

A Share becomes a deposit share by transfer or issuance to Euroclear Nederland or to an intermediary, recording in writing that it is a deposit share. The deposit share must be recorded in the shareholders register of the Company in the name of Euroclear Nederland or the relevant intermediary, stating in writing that it is a deposit share. Deposit shareholders are not recorded in the shareholders register of the Company. Deposit shares can only be delivered from a collective depot or giro depot with due observance of the related provisions of the Dutch Securities Giro Transactions Act. The transfer by a deposit shareholder of its book-entry rights representing deposit shares shall be effected in accordance with the provisions of the Dutch Securities Giro Transactions Act. The same applies to the establishment of a right of pledge and the establishment or transfer of a usufruct on these book-entry rights.

## **Dividends and Other Distributions**

### ***General***

The Company may only make distributions, whether a distribution of profits or of freely distributable reserves, to its Shareholders if its shareholders' equity exceeds the sum of the paid-up and called-up share capital plus the reserves as required to be maintained by Dutch law or by the Articles of Association.

Distributions take place following the adoption of the Annual Accounts from which it appears that the distribution is allowed. Out of the profits, a dividend shall first be distributed on the Preference Shares, if outstanding. The Board of Management may determine, subject to approval of the Supervisory Board, that any amount remaining out of the profit after the distribution on the Preference Shares will be added to the reserves. The profit remaining after the reservation, if any, by the Board of Management will be at the disposal of the General Meeting, which may resolve to carry it to the reserves or to distribute it among the holders of Ordinary Shares.

The General Meeting may on a proposal made by the Board of Management, which proposal must be approved by the Supervisory Board, resolve to make distributions to the holders of Ordinary Shares to the debit of one or several reserves which the Company is not prohibited from distributing by virtue of law or the Articles of Association. The Board of Management, subject to the approval of the Supervisory Board, may resolve to distribute to the holders of Ordinary Shares a dividend in the form of Ordinary Shares.

In addition, the Board of Management may resolve, subject to the approval of the Supervisory Board, to make interim distributions on the Shares or on Shares of a specific class. The General Meeting may also resolve to make an interim distribution on the proposal of the Board of Management, subject to the approval of the Supervisory Board.

See "Dividend Policy" for a more detailed description regarding dividends.

### ***Right to reserve***

The Board of Management, subject to the approval of the Supervisory Board, may resolve to reserve the profits or a part of the profits.

## **Dissolution and Liquidation**

The Company may only be dissolved by a resolution of the General Meeting, subject to the approval of the Supervisory Board. A resolution to dissolve the Company requires a simple majority of the votes cast, if the resolution is adopted on a proposal of the Board of Management. If the resolution to dissolve the Company is not adopted on a proposal of the Board of Management, the resolution to dissolve the Company requires a majority of at least three-fourths of the votes cast in a General Meeting provided that majority represents more than half of the issued share capital. If the aforementioned quorum is not met, a second meeting may be convened, to be held within eight weeks of the first meeting, at which the resolution requires a majority of at least three-fourths of the votes cast, irrespective the share capital represented at the meeting. If the General Meeting has resolved to dissolve the Company, the Board of Management must carry out the liquidation of the Company under the supervision of the Supervisory Board, unless otherwise resolved by the General Meeting. During liquidation, the provisions of the Articles of Association will remain in force where possible.

From the balance of the liquidation, a distribution must first be made on every Preference Share to the amount paid thereon and the residue thereafter must be distributed on the Ordinary Shares. However, if Preference Shares are issued at the expense of the reserves of the Company, a distribution from the balance of the liquidation must be made on the Ordinary Shares only.

## **Defensive Measures**

The Foundation will be incorporated under Dutch law and will be established on or prior to the Settlement Date. The Foundation will have its statutory seat in Eindhoven, the Netherlands and its registered office at High Tech Campus 45, 5656 AE Eindhoven. The Foundation's objects will be to further the interests of the Company, the enterprises maintained by the Company and the companies affiliated with the Company in a group. The Foundation will act in such a way that the interests of the Company and of those enterprises are optimally safeguarded and that influences which could affect the independence, continuity or identity of the Company, the enterprise maintained by the Company and the companies affiliated with the Company in a group in conflict with those interests are deterred to the best of the Foundation's ability.

The Foundation shall pursue its objects, inter alia, by acquiring and holding Preference Shares and by exercising the rights, in particular the voting rights, attached to those Preference Shares, as well as by exercising (whether or not in legal proceedings) rights attributed to it pursuant to Dutch law, the Articles of Association or

any agreement, including the right to request the court for an inquiry proceeding (*enquêteverzoek*). The Foundation will be authorized to pledge any Preference Shares it holds, however, the voting rights attached to such Preference Shares cannot be granted to the pledgee.

The possibility of issuing Preference Shares is a defensive measure. To this end, the Foundation will be granted a call option by the Company to acquire Preference Shares. The Foundation may resolve to exercise the call option at its sole discretion and does not require the consent of the Company to exercise the call option. However the Foundation may not exercise the call option without the prior consent of the Selling Shareholder for so long as the Selling Shareholders' (direct or indirect) holding of Ordinary Shares represents 30% or more of the issued and outstanding Shares (excluding Preference Shares). Furthermore, the Foundation may not exercise the call option until the Company has appointed three members to the board of the foundation as further described below. On each exercise of the call option, the Foundation is entitled to acquire, and the Company shall have the unconditional obligation to issue, Preference Shares up to a maximum corresponding with 100% of the share capital of the Company excluding the Preference Shares as issued and outstanding immediately prior to the exercise of the call option, less one Preference Share, from which maximum any Preference Shares already placed with the Foundation at the time of the exercise of the call option must be deducted. The call option can be exercised by the Foundation in order to, for example:

- (i) prevent, slow down or otherwise complicate an unsolicited takeover bid for and an unsolicited acquisition of Ordinary Shares by means of an acquisition at the stock market or otherwise;
- (ii) prevent and countervail concentration of voting rights in the General Meeting; and/or
- (iii) resist unwanted influence by and pressure from Shareholders to amend the strategy of the Company.

If the Foundation exercises the call option, the Company issues such number of Preference Shares as for which the Foundation exercised its call option. Upon issuance of Preference Shares, at least one fourth of the nominal value thereof must be paid-up. The Foundation must pay up any additional amounts only if and when the Company will have claimed such additional payments. At the request of the Foundation, the Preference Shares can be paid-up (in full only) at the expense of a non-distributable reserve of the Company formed for that purpose (the "**Protective Foundation Reserve**").

If Preference Shares are repurchased or cancelled, this will take place against repayment of the amounts paid-up on these Preference Shares and payment of any distribution accrued but not declared, if any. If the relevant Preference Shares were paid-up at expense of the Protective Foundation Reserve, the paid-up amount will not be paid to the Foundation and remain with the Company.

The Foundation will perform its role, and take all actions required, at its sole discretion, notwithstanding the required consent of Royal Philips for exercising the call option as mentioned above. The Foundation shall exercise the voting rights attached to the Preference Shares issued to the Foundation, independently, in accordance with its objects according to its articles of association.

The Foundation is managed by a board. The Company will select one of its officers prior to the Settlement Date who will be appointed as initial board member upon the incorporation of the Foundation, for the time being. The Company will have the right to subsequently appoint three board members who will have a profile customary for this purpose, such that the Foundation meets the independence requirement as referred to in Article 5:71(1)(d) of the Dutch Financial Supervision Act. As noted above, the Foundation may only exercise the call option after the Company has appointed these three board members. With the appointment of these three board members, the term of appointment of the board member in office on the Settlement Date will expire. Thereafter, members of the board of the Foundation will be appointed by way of co-option.

#### **Exchange Controls and other Provisions relating to Non-Dutch Shareholders**

Under Dutch law, subject to the 1977 Sanction Act (Sanctiewet 1977) or otherwise by international sanctions, there are no exchange control restrictions on investments in, or payments on, Shares (except as to cash amounts). There are no special restrictions in the Articles of Association or Dutch law that limit the right of shareholders who are not citizens or residents of the Netherlands to hold or vote Shares.

#### **General Meetings and Voting Rights**

##### ***General Meetings***

General Meetings must be held in Eindhoven, Amsterdam, Rotterdam, Utrecht, The Hague, or Haarlemmermeer (Schiphol), the Netherlands. The annual General Meeting must be held at least once a year, no later than on 30 June. Extraordinary General Meetings may be held, as often as the Board of Management or the Supervisory Board deem desirable. In addition, one or more Shareholders, who solely or jointly represent at least one-tenth of the issued capital, may request that a General Meeting be convened, the request setting out in detail



matters to be considered. If no General Meeting has been held within 56 days of the Shareholder(s) making such request, such Shareholder(s) will be authorized to request in summary proceedings a District Court to convene a General Meeting. Within three months of it becoming apparent to the Board of Management that the equity of the Company has decreased to an amount equal to or lower than one-half of the paid-up part of the capital, a General Meeting will be held to discuss any requisite measures.

The convocation of the General Meeting is issued by a public announcement in electronic form which can be directly and continuously accessed until the General Meeting. The notice must at least state the items to be discussed, the location, date and time of the General Meeting, the procedure for taking part in the General Meeting through a written proxy and the procedure for taking part in the General Meeting through electronic means of communication, if this right may be exercised, as well as the Company's website address. The notice must be given by at least such number of days prior to the day of the meeting as required by Dutch law, which is currently 42 days.

The agenda for the annual General Meeting must contain certain subjects, including, among other things, the adoption of the Annual Accounts, the discussion of any substantial change in the corporate governance structure of the Company and the allocation of the profits, insofar as this is at the disposal of the General Meeting. In addition, the agenda shall include such items as have been included therein by the Board of Management or the Supervisory board. The agenda shall also include such items as one or more Shareholders and others entitled to attend General Meetings, representing, pursuant to the Articles of Association, at least the percentage of the issued and outstanding share capital as required by law (which as of the date of this Prospectus is 3%), have requested the Board of Management by a motivated request to include in the agenda, at least 60 days before the day of the General Meeting. No resolutions may be adopted on items other than those which have been included in the agenda.

Shareholders who, individually or with other Shareholders, hold Shares that represent at least 1% of the issued and outstanding share capital or a market value of at least €250,000, may request the Company to disseminate information that is prepared by them in connection with an agenda item for a General Meeting. The Company can only refuse disseminating such information, if received less than seven business days prior to the General Meeting, if the information gives or could give an incorrect or misleading signal or if, in light of the nature of the information, the Company cannot reasonably be required to disseminate it.

The General Meeting is chaired by the chairman of the Supervisory Board. Members of the Board of Management and Supervisory Board may attend a General Meeting. In these General Meetings, they have an advisory vote. The chairman of the General Meeting may decide at his or her discretion to admit other persons to the General Meeting.

Each Shareholder may attend the General Meeting, address the General Meeting and exercise voting rights pro rata to his or her shareholding, either in person or by proxy. Shareholders may exercise these rights, if they are the holders of Shares on the record date as required by Dutch law, which is currently the 28<sup>th</sup> day before the day of the General Meeting, and they or their proxy have notified the Company of their intention to attend the General Meeting in writing or by any other electronic means that can be reproduced on paper at the address and by the date specified in the notice of the General Meeting. The convocation notice must state the record date and the manner in which the persons entitled to attend the General Meeting may register and exercise their rights.

Meetings of holders of Shares of a specific class, whereby the Ordinary Shares and the Preference Shares each qualify as a specific class, will be held as frequently and whenever such a meeting is required by virtue or any statutory regulation or any regulation in the Articles of Association.

### ***Voting rights***

Each Share confers the right to cast one vote in the General Meeting. Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast. Pursuant to Dutch law, no votes may be cast at a General Meeting in respect of Shares which are held by the Company.

### **Amendment of the Articles of Association**

Pursuant to the Articles of Association, a resolution to amend the Articles of Association requires a simple majority of the votes cast, if the resolution is adopted on a proposal of the Board of Management. If the resolution to amend the Articles of Association is not adopted on a proposal of the Board of Management, the resolution to amend the Articles of Association requires a majority of at least three-fourths of the votes cast in a General Meeting provided that majority represents more than half of the issued share capital. If the aforementioned quorum is not met, a second meeting may be convened, to be held within eight weeks of the first meeting, at which the resolution requires a majority of at least three-fourths of the votes cast, irrespective the

share capital represented at the meeting. A resolution to amend the Articles of Association requires the approval of the Supervisory Board. A copy of the proposal, containing the verbatim text of the proposed amendment, must be lodged with the Company for the inspection of every Shareholder and have been published on the Company's website until the end of the General Meeting.

The above mentioned requirements to amend the Articles of Association are stricter than is required under Dutch law. Dutch law requires a resolution of the General Meeting adopted by a simple majority of the votes cast without a quorum requirement being applicable.

### **Annual Accounts and Semi-Annual Accounts**

Annually, within four months after the end of the financial year, the Board of Management must prepare the annual accounts and make them available for inspection by the Shareholders at the office of the Company. The annual accounts must be accompanied by an auditor's report, a management commentary and certain other information required under Dutch law and a report of the Supervisory Board. The annual accounts must be signed by the members of the Board of Management and Supervisory Board.

The annual accounts, the auditor's report, the management commentary, the other information required under Dutch law and the report of the Supervisory Board must be made available to the Shareholders for review as from the day of the notice convening the annual General Meeting. The annual accounts must be adopted by the General Meeting. The Board of Management must send the adopted annual accounts to the AFM within five business days after adoption.

The Company must prepare and make publicly available a semi-annual financial report as soon as possible, but at the latest three months after the end of the first six months of the financial year. If the semi-annual financial report is audited or reviewed, the independent auditor's audit or review report, respectively, must be published together with the semi-annual financial report.

### ***Dutch Financial Reporting Supervision Act***

On the basis of the Dutch Financial Reporting Supervision Act (*Wet toezicht financiële verslaggeving*) (the "FRSA") the AFM supervises the application of financial reporting standards by, among others, companies whose corporate seat is in the Netherlands and whose securities are listed on a regulated market, as defined in the FMSA, or foreign stock exchange.

Pursuant to the FRSA, the AFM has an independent right to (i) request an explanation from the Company regarding its application of the applicable financial reporting standards and (ii) recommend the Company to make available further explanations. If the Company does not comply with such a request or recommendation, the AFM may request that the enterprise chamber of the court of appeal in Amsterdam (*Ondernemingskamer van het Gerechtshof te Amsterdam*) (the "Enterprise Chamber") orders the Company to (i) provide an explanation of the way it has applied the applicable financial reporting standards to its financial reports or (ii) prepare its financial reports in accordance with the Enterprise Chamber's instructions.

### ***Rules Governing Obligations of Shareholders to Make a Public Takeover Bid***

Pursuant to the FMSA, and in accordance with European Directive 2004/25/EC, also known as the takeover directive, any shareholder who (individually or jointly) directly or indirectly obtains control of a Dutch listed company is required to make a public takeover bid for all issued and outstanding shares in that company's share capital. Such control is deemed present if a (legal) person is able to exercise, alone or acting in concert, at least 30% of the voting rights in the general meeting of such listed company (subject to an exemption for major shareholders who, acting alone or in concert, already had such stake in the company at the time of that company's initial public offering).

In addition, it is prohibited to launch a public takeover bid for shares of a listed company, such as the Ordinary Shares, unless an offer document has been approved by the AFM. A public takeover bid may only be launched by way of publication of an approved offer document unless a company makes an offer for its shares. The public takeover bid rules are intended to ensure that in the event of a public takeover bid, among others, sufficient information will be made available to the holders of the shares, the holders of the shares will be treated equally, that there will be no abuse of inside information and that there will be a proper and timely offer period.

### **Squeeze-out Proceedings**

Pursuant to Section 2:92a of the DCC, a shareholder who for his or her own account contributes at least 95% of a Dutch company's issued share capital may institute proceedings against such company's minority shareholders jointly for the transfer of their shares to him or her. The proceedings are held before the Enterprise

Chamber and can be instituted by means of a writ of summons served upon each of the minority shareholders in accordance with the provisions of the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*). The Enterprise Chamber may grant the claim for squeeze-out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value to be paid for the shares of the minority shareholders. Once the order to transfer becomes final before the Enterprise Chamber, the person acquiring the shares shall give written notice of the date and place of payment and the price to the holders of the shares to be acquired whose addresses are known to him. Unless the addresses of all of them are known to him, he is required to publish the same in a daily newspaper with nationwide circulation.

The offeror under a public takeover bid is also entitled to start squeeze-out proceedings if, following the public takeover bid, the offeror contributes at least 95% of the outstanding share capital and represents at least 95% of the total voting rights. The claim of a takeover squeeze-out needs to be filed with the Enterprise Chamber within three months following the expiry of the acceptance period of the offer. The Enterprise Chamber may grant the claim for squeeze-out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value to be paid for the shares of the minority shareholders. In principle, the offer price is considered reasonable if the offer was a mandatory offer or if at least 90% of the shares to which the offer related were received by way of voluntary offer.

The Dutch takeover provisions of the FMSA also entitle those minority shareholders that have not previously tendered their shares under an offer to transfer their shares to the offeror, provided that the offeror has acquired at least 95% of the outstanding share capital and represents at least 95% of the total voting rights. In regard to price, the same procedure as for takeover squeeze-out proceedings initiated by an offeror applies. The claim also needs to be filed with the Enterprise Chamber within three months following the expiry of the acceptance period of the offer.

### **Obligations to Disclose Holdings**

Holders of the Shares may be subject to notification obligations under the FMSA. Shareholders are advised to seek professional advice on these obligations.

### **Shareholders**

Pursuant to the FMSA, any person who, directly or indirectly, acquires or disposes of an actual or potential interest in the capital or voting rights of the Company must immediately notify the AFM by means of a standard form, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person in the Company reaches, exceeds or falls below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

A notification requirement also applies if a person's capital interest or voting rights reaches, exceeds or falls below the abovementioned thresholds as a result of a change in the Company's total outstanding share capital or voting rights. Such notification has to be made no later than the fourth trading day after the AFM has published the Company's notification of the change in its outstanding share capital.

The Company is required to notify the AFM immediately of the changes to its total share capital or voting rights if its issued share capital or voting rights changes by 1% or more since the Company's previous notification. The Company must furthermore notify the AFM within eight days after each quarter, in the event its share capital or voting rights changed by less than 1% in that relevant quarter since the Company's previous notification.

In addition, each person who is or ought to be aware that, as a result of the exchange of certain financial instruments, such as options for actual shares, his actual capital or voting interest in the Company, reaches, exceeds or falls below any of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%, vis-à-vis his most recent notification to the AFM, must give notice to the AFM no later than the fourth trading day after he became or ought to be aware of this change.

Controlled entities, within the meaning of the FMSA, do not have notification obligations under the FMSA, as their, direct and indirect, interests are attributed to their (ultimate) parent. Any person may qualify as a parent for purposes of the FMSA, including an individual. A person who has a 3% or larger interest in the Company's share capital or voting rights and who ceases to be a controlled entity for these purposes must immediately notify the AFM. As of that moment, all notification obligations under the FMSA will become applicable to the former controlled entity.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must, *inter alia*, be taken into account: (i) shares and voting rights directly held (or acquired or disposed of) by

any person; (ii) shares and voting rights held (or acquired or disposed of) by such person's controlled entity or by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement; (iii) voting rights acquired pursuant to an agreement providing for a temporary transfer of voting rights against a payment; (iv) shares which such person (directly or indirectly) or third party referred to above, may acquire pursuant to any option or other right to acquire Shares; (v) shares which determine the value of certain cash settled financial instruments such as contracts for difference and total return swaps; (vi) shares that must be acquired upon exercise of a put option by a counterparty; and (vii) shares which are the subject of another contract creating an economic position similar to a direct or indirect holding in those shares. Special attribution rules apply to shares and voting rights which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of shares can also be subject to the reporting obligations, if such person has, or can acquire, the right to vote on the shares. The acquisition of (conditional) voting rights by a pledgee or beneficial owner may also trigger the reporting obligations as if the pledgee or beneficial owner were the legal holder of the shares.

For the purpose of the notification obligation, the following instruments qualify as "shares": (i) shares; (ii) depositary receipts for shares (or negotiable instruments similar to such receipts); (iii) negotiable instruments for acquiring the instruments under (i) or (ii) (such as convertible bonds); and (iv) options for acquiring the instruments under (i) or (ii).

Gross short positions in shares must also be notified to the AFM. For these gross short positions the same thresholds apply as for notifying an actual or potential interest in the capital and/or or voting rights of a Dutch listed company, as referred to above, and without any set-off against long positions.

In addition, pursuant to Regulation (EU) No 236/2012, each person holding a net short position attaining 0.2% of the issued share capital of a Dutch listed company is required to notify such position to the AFM. Each subsequent increase of this position by 0.1% above 0.2% must also be notified. Each net short position equal to 0.5% of the issued share capital of a Dutch listed company and any subsequent increase of that position by 0.1% will be made public via the AFM short selling register. To calculate whether a natural person or legal person has a net short position, their short positions and long positions must be set-off. A short transaction in a Share can only be contracted if a reasonable case can be made that the Shares sold can actually be delivered, which requires confirmation of a third party that the Shares have been located.

### ***Management***

Pursuant to the FMSA, any member of the Board of Management and Supervisory Board, as well as any other person who would have managerial or co-managerial responsibilities in respect of the Company or who would have the authority to make decisions affecting future developments and business prospects of the Company regularly having access to inside information relating, directly or indirectly, to the Company, must notify the AFM by means of a standard form of any transactions conducted for his or her own account relating to the Shares or in financial instruments the value of which is also based on the value of the Shares.

In addition, in accordance with the FMSA and the regulations promulgated thereunder (*e.g.*, the Dutch Financial Supervision Act Decree on Market Abuse (Besluit Marktmissbruik Wft)), certain persons who are closely associated with members of the Board of Management, Supervisory Board or any of the other persons as described above, are required to notify the AFM of any transactions conducted for their own account relating to the Shares or in financial instruments the value of which is also based on the value of the Shares. The FMSA and the regulations promulgated thereunder cover, inter alia, the following categories of persons: (i) the spouse or any partner considered by national law as equivalent to the spouse; (ii) dependent children; (iii) other relatives who have shared the same household for at least one year at the relevant transaction date; and (iv) any legal person, trust or partnership whose, among other things, managerial responsibilities are discharged by a person referred to under (i) to (iii) above or by the relevant member of the Board of Management, Supervisory Board or other person with any authority in respect of the Company as described above.

Members of the Board of Management and Supervisory Board must notify the AFM forthwith. The other persons must notify the AFM no later than the fifth business day following the relevant transaction date. Under certain circumstances, these latter notifications may be postponed until the date the value of the transactions performed for that person's own account, together with transactions carried out by the persons closely associated with that person, amounts to €5,000 or more in the calendar year in question.

### ***Non-compliance***

Non-compliance with the notification obligations under the FMSA could lead to criminal fines, administrative fines, imprisonment or other sanctions. In addition, non-compliance with some of the notification obligations under the FMSA may lead to civil sanctions, including suspension of the voting rights relating to the

Shares held by the offender for a period of not more than three years, voiding of a resolution adopted by the General Meeting in certain circumstances and ordering the person violating the disclosure obligations to refrain, during a period of up to five years, from acquiring Shares and/or voting rights in Shares.

#### ***Public registry***

The AFM does not issue separate public announcements of these notifications. It does, however, keep a public register of all notifications under the FMSA on its website ([www.afm.nl](http://www.afm.nl)). Third parties can request to be notified automatically by e-mail of changes to the public register in relation to a particular company's shares or a particular notifying party.

#### ***Identity of Shareholders***

The Company may, in accordance with Chapter 3A of the Dutch Securities Giro Transactions Act, request Euroclear Nederland, admitted institutions, intermediaries, institutions abroad, and managers of investment institutions, to provide certain information on the identity of its Shareholders. Such request may only be made during a period of 60 days up to the day on which the General Meeting will be held. No information will be given on Shareholders with an interest of less than 0.5% of the issued share capital. A Shareholder who, individually or together with other Shareholders, holds an interest of at least 10% of the issued share capital may request the Company to establish the identity of its Shareholders. This request may only be made during a period of 60 days until (and not including) the 42<sup>nd</sup> day before the day on which the General Meeting will be held.

#### **Market Abuse Regulation**

The FMSA provides for specific rules intended to prevent market abuse, such as insider trading, tipping and market manipulation. Pursuant to these rules, the Company has adopted rules governing the holding and carrying out of transactions in the Shares or in financial instruments the value of which is determined by the value of the Shares by members of the Board of Management and Supervisory Board as well as employees.

#### **Transparency Directive**

The Netherlands will be the Company's home member state for the purposes of Directive 2004/109/EC (as amended by Directive 2013/50/EU) as a consequence of which the Company will be subject to the FMSA in respect of certain ongoing transparency and disclosure obligations.



## EXISTING SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### Existing Shareholders

The Selling Shareholder is the only Shareholder who owns 3% or more of the Company's share capital or voting rights as of the date of this Prospectus. The Selling Shareholder is offering 37,500,000 Offer Shares in the Offering, assuming no exercise of the Over-Allotment Option. Assuming the Over-Allotment Option is fully exercised, the Offer Shares will constitute 28.75% of the Ordinary Shares. After the Settlement Date, the Selling Shareholder will remain the majority shareholder in the Company. The Selling Shareholder aims to sell all of its remaining Ordinary Shares over the next several years as it will focus on its healthtech business. The Group has agreed that it will ask the Philips Lighting B.V. central works council for advice on any sale of Ordinary Shares by the Selling Shareholder that would result in the Selling Shareholder no longer holding the majority of the Ordinary Shares. The works council must be consulted at a stage where the council's views may still have a meaningful influence on the relevant decision. Management may decide not to heed the council's advice, in which case the relevant action would be stayed for one month. During that period, the council may institute legal proceedings to seek to have the decision annulled on the basis that management could not have had a reasonable basis for taking the decision.

The table below presents information about the ownership of Ordinary Shares by the Selling Shareholder as of the date of this Prospectus, as well as on or shortly after Settlement, without and with full exercise of the Over-Allotment Option.

Shareholder	Amount of Ordinary Share Capital Owned as of the Date of this Prospectus		Maximum number of Ordinary Shares to be sold in the Offering		Ordinary Shares owned on or shortly after Settlement <sup>(1)</sup>			
			Without exercise of the Over-Allotment Option	With full exercise of the Over-Allotment Option	Without exercise of the Over-Allotment Option		With full exercise of the Over-Allotment Option	
	Number / class of shares	Percentage of share capital				%		%
Selling Shareholder	150,000,000 Ordinary Shares	100%	37,500,000	43,125,000	112,500,000	75%	106,875,000	71.25%

(1) Excluding the effect of the sale of Ordinary Shares in amounts of approximately €500,000 and €250,000 by the Selling Shareholder to the CEO and the CFO, respectively, at the Offer Price.

Each Share gives the right to cast one vote at the General Meetings. All Shareholders have the same voting rights.

### Related Party Transactions Policy

The Company acknowledges the importance of ensuring that related party transactions shall be at arms' length terms and shall be dealt with in accordance with the applicable legal framework. Accordingly, a related party transactions policy has been adopted by the Board of Management. The full text of the related party transactions policy is available on the Company's website. This document includes the procedure for resolving on transactions between the Company and legal or natural persons who hold at least 10% of the Ordinary Shares and which transactions are of material significance to the Company and/or to such persons, as well as any material amendment to an existing related party transaction. Such related party transactions require approval of the Supervisory Board. Certain transactions are deemed to have been approved by the Supervisory Board in advance, amongst others, transactions in connection with the Separation (for more information see "Separation").

### Relationship Agreement

On or prior to the Settlement Date, the Company and the Selling Shareholder will enter into the Relationship Agreement. The Relationship Agreement contains certain arrangements regarding the relationship between the Company and the Selling Shareholder. The full text of the Relationship Agreement is available on the Company's website. Below is a summary of the main elements of the Relationship Agreement.

### Supervisory Board Nominees

The Selling Shareholder will have the right to propose two Royal Philips Nominees for appointment as members of the Supervisory Board. If the Selling Shareholder nominates a person in accordance with the Relationship Agreement, the Company shall procure that the Supervisory Board shall make a binding nomination of such nominee for appointment as a member of the Supervisory Board to the General Meeting. The Royal Philips Nominee shall be appointed unless the binding nomination is overruled (for more information see "Management, Employees and Corporate Governance"). Initially there shall be two Royal Philips Nominees on the Supervisory Board. As long as the Selling Shareholder's shareholding in the Company equals or exceeds 30% of the issued and outstanding Ordinary Shares, there shall be two Royal Philips Nominees on the Supervisory

Board. Once the Selling Shareholder's holding of the issued and outstanding Ordinary Shares falls below 30% but is equal to or exceeds 15%, there shall be one Royal Philips Nominee on the Supervisory Board as the Selling Shareholder shall procure that one Royal Philips Nominee designated as such by the Selling Shareholder shall resign from its position as member of the Supervisory Board with immediate effect if so requested by the Company. Once the Selling Shareholder's holding falls below 15%, there shall be no Royal Philips Nominee on the Supervisory Board as the Selling Shareholder shall cause all Royal Philips Nominees to resign from their position as members of the Supervisory Board with immediate effect if so requested by the Company.

#### ***Supervisory Board Committees composition***

As long as the Supervisory Board comprises a Royal Philips Nominee, both the Remuneration Committee and, unless otherwise required by law, the Audit Committee shall include a Royal Philips Nominee.

#### ***Reserved matters***

For as long as the Supervisory Board comprises a Royal Philips Nominee, certain resolutions of the Board of Management as further specified in the Relationship Agreement, shall be subject to Supervisory Board approval. As long as the Selling Shareholder's shareholding in the Company equals or exceeds 50% of the Ordinary Shares issued and outstanding, a resolution of the Supervisory Board to approve a resolution of the Board of Management regarding an issue of Shares or to grant rights to subscribe for Shares requires the affirmative vote of the Royal Philips Nominees. Furthermore, as long as the Selling Shareholder's shareholding in the Company equals or exceeds 30% of the Ordinary Shares issued and outstanding, resolutions of the Supervisory Board to determine the remuneration of the members of the Board of Management and to approve a resolution of the Board of Management to determine the remuneration of certain senior executives designated by the Supervisory Board require the affirmative vote of the Royal Philips Nominee that is a member of the Supervisory Board's remuneration committee. The approval shall not be required if it concerns an issue of Shares or grant of rights to Shares to an employee of the Company or a Group company under any applicable employee share incentive plan.

#### ***Compliance, information right and matters concerning auditors***

Until the date on which the Selling Shareholder is both (i) no longer required under IFRS to consolidate the Company's financial statements with its financial statements and (ii) the Selling Shareholder is holding 50% or less of the issued and outstanding Ordinary Shares, the Group shall observe certain business principles and policies as applied by Royal Philips.

Until the date on which the Selling Shareholder is both (i) no longer required under IFRS to account for its investment in the Company under the equity method of accounting and (ii) the Selling Shareholder is holding 20% or less of the issued and outstanding Ordinary Shares, the Company shall provide to Selling Shareholder information and data relating to the Group's business, including financial results, to enable the Selling Shareholder to satisfy its ongoing financial reporting, audit and other legal and regulatory requirements.

The Relationship Agreement contains provisions pursuant to which the Company shall procure that the Company shall have the same external auditor as the Selling Shareholder until the date on which the Selling Shareholder is both (i) no longer required under IFRS to account for its investments in the Company under the equity method of accounting, and (ii) the Selling Shareholder is holding 50% or less of the issued and outstanding Ordinary Shares. The Relationship Agreement contains detailed provisions on the provision of information by the Company to the Selling Shareholders' external auditor.

The Relationship Agreement contains provisions on the confidentiality and limited use of information provided under the Relationship Agreement.

#### ***Amendments to governance documents***

An amendment to the Articles of Association, the Supervisory Board Rules or the Board of Management Rules can be made in accordance with the relevant laws and as described in the relevant document, taking into account the restrictions set forth in the Relationship Agreement. The Company shall procure that no amendment to these documents will be proposed or implemented that would result in a violation of the Relationship Agreement. An amendment of the related party transactions policy can be made by the Company subject to approval by the Supervisory Board and prior consultation of the Selling Shareholder.

#### ***Orderly market arrangements***

At any time after the lock-up period, the Selling Shareholder will be entitled to dispose of its Ordinary Shares in whole or in part in the open market or through a private sale. The Selling Shareholder will use reasonable commercial efforts to conduct any disposal of Ordinary Shares in an orderly market manner. The Company has to cooperate to a reasonable extent to optimize any fully marketed offerings and block trades.

***Duration, termination and governing law***

The Relationship Agreement will terminate if and when the Selling Shareholder holds less than 10% of the issued and outstanding Ordinary Shares, except for a limited number of clauses which will not terminate under any circumstances other than by mutual written agreement. The Relationship Agreement may be terminated by mutual agreement of the Company and the Selling Shareholder in writing. The Relationship Agreement is governed by Dutch law.

## THE OFFERING

### Introduction

The Selling Shareholder is offering 37,500,000 Offer Shares. Assuming no exercise of the Over-Allotment Option, the Offer Shares will constitute 25% of the issued Shares. Assuming the Over-Allotment Option is fully exercised, the Offer Shares will constitute 28.75% of the issued Shares. The Offering consists of (i) a public offering in the Netherlands to institutional and retail investors and (ii) a private placement to (a) investors outside the Netherlands and the United States, subject to applicable exemptions from the prospectus requirements and (b) investors in the United States reasonably believed to be QIB as defined in Rule 144A. All offers and sales in the United States will be made only to persons reasonably believed to be QIBs in reliance on Rule 144A. All offers and sales outside the United States will be made in compliance with Regulation S. The Offering is made only in those jurisdictions in which, and only to those persons to whom, the Offering may be lawfully made.

The Selling Shareholder expects to grant the Joint Global Coordinators, on behalf of the Underwriters, the Over-Allotment Option, exercisable up to 30 calendar days after the First Trading Date, pursuant to which the Stabilization Manager may require the Selling Shareholder to sell at the Offer Price up to 5,625,000 additional Over-Allotment Shares, comprising up to a number of Ordinary Shares equal to 15% of the total number of Offer Shares sold in the Offering, to cover over-allotments or short positions, if any, in connection with the Offering.

### Timetable

Subject to acceleration or extension of the timetable for, or withdrawal of, the Offering, the timetable below sets forth certain expected key dates for the Offering.

<u>Event</u>	<u>Expected Date</u>	<u>Time CET</u>
Start of Offering Period	16 May 2016	9:00
End of Offering Period for Dutch Retail Investors	25 May 2016	17:30
End of Offering Period for institutional investors	26 May 2016	12:00
Pricing and Allocation	26 May 2016	
Commencement of trading on an “as-if-and-when-delivered” basis on Euronext Amsterdam	27 May 2016	9:00
Settlement (payment and delivery)	31 May 2016	

The Selling Shareholder, after consultation with the Company and the Joint Global Coordinators may adjust the dates, times and periods given in the timetable and throughout this Prospectus. If the Selling Shareholder should decide to do so, the Company will make this public through a press release, which will also be posted on the Company’s website. Any other material alterations will be published through a press release that will also be posted on the Company’s website and (if required) in a supplement to this Prospectus that is subject to the approval of the AFM.

Any extension of the timetable for the Offering will be published in a press release at least three hours before the end of the original Offering Period, provided that any extension will be for a minimum of one full day. Any acceleration of the timetable for the Offering will be published in a press release at least three hours before the proposed end of the accelerated Offering Period. In any event, the Offering Period will be at least six business days.

### Offer Price and Number of Offer Shares

As of the date of this Prospectus, the Offer Price is expected to be in the range of €18.50 to €22.50 (inclusive) per Offer Share. This Offer Price Range is an indicative price range and can be changed prior to the Allocation. The Offer Price, which may be set within, above or below this initial Offer Price Range, and the exact number of Offer Shares will be determined on the basis of a book building process. The Offer Price and the exact number of Offer Shares offered will be determined by the Selling Shareholder, after consultation with the Company and the Joint Global Coordinators after the end of the Offering Period, including any acceleration or extension, on the basis of the book building process and taking into account economic and market conditions, a qualitative and quantitative assessment of demand for the Offer Shares, and other factors deemed appropriate. The Offer Price, the exact numbers of Offer Shares to be sold and the maximum number of Over-Allotment Shares will be stated in the Pricing Statement which will be published through a press release that will also be posted on the Company’s website and filed with the AFM.

Prior to the Allocation, the number of Offer Shares can be increased or decreased, and the Offer Price Range can be changed. Investors who have already agreed to purchase or subscribe for the Offer Shares during the Offering Period prior to the announcement of any change of the Offer Price Range, shall have the right,

exercisable within two business days following the publication of such announcement, to withdraw their acceptances. Any change of the Offer Price Range on the last day of the Offering Period will result in the Offering Period being extended by at least two business days; any change of the Offer Price Range on the day prior to the last day of the Offering Period will result in the Offering Period being extended by at least one business day. In this case, if the Offering Period for the Dutch Retail Investors would already have closed, this Offering Period for Dutch Retail Investors would be reopened. Accordingly, all investors, including Dutch Retail Investors, will have at least two business days to reconsider their subscriptions. Any such change in the number of Offer Shares and/or the Offer Price Range will be announced in a press release that will be posted on the Company's website. Upon a change of the number of Offer Shares, references to Offer Shares in this Prospectus should be read as referring to the amended number of Offer Shares and references to Over-Allotment Shares should be read as referring to the amended number of Over-Allotment Shares.

### **Offering Period**

Subject to acceleration or extension of the timetable for the Offering, prospective institutional investors may subscribe for Offer Shares during the period commencing at 9:00 CET on 16 May 2016 and ending at 12:00 CET on 26 May 2016 and prospective retail investors may subscribe for Offer Shares during the period commencing at 9:00 CET on 16 May 2016 and ending at 17:30 CET on 25 May 2016. In the event of an acceleration or extension of the Offering Period, pricing, allotment, admission and first trading of the Offer Shares, as well as payment (in euros) for and delivery of the Offer Shares in the Offering may be advanced or extended accordingly. If a significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the Offer Shares arises or is noted before the final closing of the Offering, a supplement to this Prospectus will be published, the Offering Period will be extended, if so required by the Prospectus Directive, the FMSA or the rules promulgated thereunder, and investors who have already agreed to purchase Offer Shares may withdraw their subscriptions within two business days following the publication of the supplement, provided that the new factor, material mistake of inaccuracy, arose or was noted before the final closing of the Offering.

### **Subscription and Allocation**

Dutch Retail Investors can only subscribe on a market order (*bestens*) basis. This means that Dutch Retail Investors will be bound to purchase and pay for the Offer Shares indicated in their share application, to the extent allocated to them, at the Offer Price, even if the Offer Price Range has been changed. Dutch Retail Investors are entitled to cancel or amend their application, at the financial intermediary where their original application was submitted, at any time prior to the end of the Offering Period for Dutch Retail Investors (if applicable, as amended or extended), for any reason, including an amendment to increase the Offer Price Range. Dutch Retail Investors can submit their subscriptions through their own financial intermediary. The financial intermediary will be responsible for collecting subscriptions from Dutch Retail Investors and for submitting their subscriptions to ING as the retail coordinator (the "**Retail Coordinator**"). The Retail Coordinator will consolidate all subscriptions of Dutch Retail Investors submitted on an aggregate basis by financial intermediaries and inform the Joint Global Coordinators, the Company and the Selling Shareholder. All questions concerning the timeliness, validity and form of instructions to a financial intermediary in relation to the purchase of Offer Shares and, if applicable, Over-Allotment Shares, will be determined by the financial intermediaries in accordance with their usual procedures or as otherwise notified to the Dutch Retail Investors. The Company and the Selling Shareholder are not liable for any action or failure to act by a financial intermediary or the Retail Coordinator in connection with any purchase, or purported purchase, of Offer Shares.

The Allocation is expected to take place after termination of the Offering Period on or about 26 May 2016, subject to acceleration or extension of the timetable for the Offering. Allotment to investors who applied to subscribe for Offer Shares will be determined by the Selling Shareholder, after consultation with the Company and the Joint Global Coordinators, and full discretion will be exercised as to whether or not and how to allot the Offer Shares. There is no maximum or minimum number of Offer Shares for which prospective investors may subscribe and multiple (applications for) subscriptions are permitted. In the event that the Offering is over-subscribed, investors may receive fewer Offer Shares than they applied to subscribe for. The Selling Shareholder, the Company, the Joint Global Coordinators and the Joint Bookrunners may, at their own discretion and without stating the grounds therefor, reject any subscriptions wholly or partly. Any monies received in respect of subscriptions which are not accepted in whole or in part will be returned to the investors without interest and at the investors' risk.

Notwithstanding the above, it is intended that Dutch Retail Investors will benefit from preferential allocation, for up to 10% of the Offer Shares, assuming no exercise of the Over-Allotment Option. See "—Preferential Retail Allocation" below. Apart from the Preferential Retail Allocation, the Selling Shareholder, the Company and the Joint Global Coordinators retain full flexibility to change the intended allocation. All Offer Shares will be offered as part of a single offering, there is no separate tranche for retail investors.



Investors participating in the Offering will be deemed to have checked whether and to have confirmed they meet the requirements of the selling and transfer restrictions in “Selling and Transfer Restrictions”. If in doubt, investors should consult their professional advisers.

The Joint Bookrunners will communicate to institutional investors the number of Offer Shares allocated to them on the date that follows the date of Allocation.

### **Preferential Retail Allocation**

There will be a preferential allocation of Offer Shares to Dutch Retail Investors in accordance with applicable law and regulations. Each Dutch Retail Investor will be allocated the first 250 (or fewer) Offer Shares for which such investor applies. However, if the total number of Offer Shares subscribed for by Dutch Retail Investors under the Preferential Retail Allocation would exceed 10% of the total number of the Offer Shares, assuming no exercise of the Over-Allotment Option, the preferential allocation to each Dutch Retail Investor may be reduced pro rata to the first 250 (or fewer) Offer Shares for which such investor applies. As a result, Dutch Retail Investors may not be allocated all of the first 250 (or fewer) Offer Shares for which they apply. The exact number of Offer Shares allocated to Dutch Retail Investors will be determined after of the Offer Period has ended.

The Preferential Retail Allocation will only be made in relation to Offer Shares comprising up to 10% of the total number of Offer Shares, not including the Over-Allotment Shares. The Selling Shareholder, after consultation with the Company and the Joint Global Coordinators has full discretion as to whether or not and how to allocate the remainder of the Offer Shares applied for.

For the purpose of the Preferential Retail Allocation, a Dutch Retail Investor is either: (i) a natural person resident in the Netherlands; or (ii) a special investment vehicle having its seat in the Netherlands which is a legal entity established for the express and sole purpose of providing asset management and/or retirement planning services for a natural person.

To be eligible for the Preferential Retail Allocation, Dutch Retail Investors must place their subscriptions during the period commencing on 16 May 2016 at 9:00 CET and ending on 25 May 2016 at 17:30 CET through financial intermediaries. Different financial intermediaries may apply deadlines before the closing time of the Offering Period.

The Retail Coordinator will communicate to the financial intermediaries the aggregate number of Offer Shares allocated to their respective Dutch Retail Investors. It is up to the financial intermediaries to notify Dutch Retail Investors of their individual allocations.

### **Payment**

Payment (in euros) for and delivery of the Offer Shares will take place on the Settlement Date. Taxes and expenses, if any, must be borne by the investor (for more information see “Taxation”). Dutch Retail Investors may be charged expenses by their financial intermediary. Investors must pay the Offer Price in immediately available funds in full in euro on or before the Settlement Date (or earlier in the case of an early closing of the Offering Period and consequent acceleration of pricing, allocation, commencement of trading and Settlement).

### **Delivery, Clearing and Settlement**

The Offer Shares will be delivered in book-entry form through the facilities of Euroclear Nederland. Application has been made for the Shares to be accepted for clearance through the book-entry facilities of Euroclear Nederland. Euroclear Nederland has its offices at Herengracht 459-469, 1017 BS Amsterdam, the Netherlands.

Delivery of the Offer Shares will take place on the Settlement Date, through the book-entry facilities of Euroclear Nederland, in accordance with its normal settlement procedures applicable to equity securities and against payment (in euros) for the Offer Shares and the Over-Allotment Shares, if applicable, in immediately available funds.

Prior to the Offering, there has been no public market for the Ordinary Shares. Application has been made to list all of the Ordinary Shares on Euronext Amsterdam under the symbol “LIGHT” with ISIN code NL0011821392. Subject to acceleration or extension of the timetable for the Offering, trading on an “as-if-and-when-delivered” basis in the Offer Shares is expected to commence on or about 27 May 2016.

The closing of the Offering may not take place on the Settlement Date or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or occur on or prior to such date. See “Plan of Distribution”.

If Settlement does not take place on the Settlement Date as planned or at all, the Offering may be withdrawn, in which case all subscriptions for Offer Shares will be disregarded, any allotments made will be deemed not to have been made and any subscription payments made will be returned without interest or other compensation. Any dealings in Ordinary Shares prior to Settlement are at the sole risk of the parties concerned. Neither the Company, the Selling Shareholder, the Underwriters, the Listing and Paying Agent, the Financial Adviser nor Euronext Amsterdam N.V. accept any responsibility or liability for any loss incurred by any person as a result of a withdrawal of the Offering or the related annulment of any transactions in Ordinary Shares on Euronext Amsterdam.

### **Voting Rights**

Each Ordinary Share confers the right to cast one vote in the General Meeting, see “Description of Share Capital—General Meetings and Voting Rights—Voting Rights”. All Shareholders have the same voting rights.

### **Ranking and Dividends**

The Offer Shares and, if the Over-Allotment Option will be exercised, any Over-Allotment Shares will, upon issue, rank equally in all respects. The Offer Shares will carry dividend rights as of the date of issue. See “Dividend Policy”.

### **Listing and Paying Agent**

ING is the Listing and Paying Agent with respect to the Shares on Euronext Amsterdam.

### **Retail Coordinator**

ING is the Retail Coordinator with respect to the Preferential Retail Allocation.

### **Stabilization Manager**

Goldman Sachs International is the Stabilization Manager with respect to the Ordinary Shares on Euronext Amsterdam.

### **Dilution**

As only existing Shares will be offered, the Offering will not have a dilutive effect.

## PLAN OF DISTRIBUTION

### Underwriting

The Company, the Selling Shareholder and the Underwriters will enter into the Underwriting Agreement after the end of the Offering Period and only after pricing and the Allocation of all Offer Shares to investors, which is expected to be on or about 26 May 2016. Under the terms and subject to the conditions set forth in the Underwriting Agreement, the Underwriters will severally agree to procure purchasers for the Offer Shares or, failing which to purchase those Offer Shares themselves, and the Selling Shareholder will agree to sell those Offer Shares at the Offer Price to purchasers procured by the Underwriters or, failing which, to the Underwriters themselves.

Subject to the satisfaction of these conditions precedent, the proportion of Offer Shares that each Underwriter may severally be required to purchase is indicated below.

<u>Underwriters</u>	<u>Underwriting Commitment of Offer Shares</u>
Goldman Sachs International .....	30.2%
J.P. Morgan .....	30.2%
Citigroup .....	9.0%
ING .....	9.0%
Morgan Stanley .....	9.0%
Société Générale .....	9.0%
ABN AMRO .....	2.16%
Rabobank .....	1.44%
<b>Total</b> .....	<b>100%</b>

In the Underwriting Agreement, the Company and the Selling Shareholder make certain representations and warranties. In addition, the Company, and for certain limited matters, the Selling Shareholder, will indemnify the Underwriters against certain losses and liabilities in connection with the Offering.

The Underwriting Agreement will provide that the obligations of the Underwriters to procure purchasers for or, failing which, to purchase the Offer Shares themselves are subject to, among other things, the following conditions: (i) the approval of this Prospectus by the AFM being in full force and effect; (ii) receipt of opinions on certain legal matters from counsel; (iii) receipt of customary officers' certificates; (iv) the absence of a material adverse change in the Group's business; (v) the admission of the Ordinary Shares to listing on Euronext Amsterdam; and (vi) certain other customary conditions. The Joint Global Coordinators (on behalf of the Underwriters) will have the right to waive the satisfaction of certain conditions or part thereof.

Upon the occurrence of certain specific events, such as the occurrence of: (i) a material adverse change in the Group's business; (ii) a breach of any of the representations and warranties, undertakings or obligations contained in the Underwriting Agreement; or (iii) a statement in this Prospectus, the Pricing Statement or any amendment or supplement to this Prospectus being untrue, inaccurate or misleading, the Joint Global Coordinators (on behalf of the Underwriters) may elect to terminate the Underwriting Agreement.

### *Underwriting fees*

In consideration of the agreement by the Underwriters to procure purchasers for or, failing which, to purchase the Offer Shares themselves at the Offer Price and subject to the Offer Shares being sold as provided for in the Underwriting Agreement, the Selling Shareholder has agreed to pay the Underwriters an aggregate base commission of 1.25% of the gross proceeds of the Offering (including, if applicable, any gross proceeds relating to the Over-Allotment Shares), subject to a maximum aggregate amount of €13.89 million, in proportion to their individual underwriting commitment.

In addition, the Selling Shareholder may, at its sole and absolute discretion, pay the Underwriters a discretionary commission of up to 1.25% of the gross proceeds of the Offering (including, if applicable, any gross proceeds relating to the Over-Allotment Shares), subject to a maximum aggregate amount of €13.89 million.

Furthermore, the Selling Shareholder have agreed to pay each of the Joint Global Coordinators an additional process fee in order for their total fees for the Offering to consist of a base fee of €6.0 million each and a discretionary fee of up to €5.0 million each (total fees include the base commission and discretionary commission referred to above).

The decision by the Selling Shareholder to pay any discretionary fees and the allocation to the Underwriters will be entirely at the discretion of the Selling Shareholder and may be distributed in proportions which are different from their respective underwriting commitments. In addition, the Selling Shareholder has also agreed to reimburse the Underwriters for certain costs and expenses incurred by them in connection with the Offering.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or the applicable securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The offering of the Offer Shares consists of (i) a public offering in the Netherlands to institutional and retail investors and (ii) a private placement to (a) investors outside the Netherlands and the United States, subject to applicable exemptions from the prospectus requirements and (b) investors in the United States reasonably believed to be QIBs as defined in Rule 144A. All offers and sales in the United States will be made only to persons reasonably believed to be QIBs in reliance on Rule 144A. All offers and sales outside the United States will be made in compliance with Regulation S.

To the extent that any Underwriter that is not a U.S. registered broker-dealer intends to effect any offers or sales of Offer Shares in the United States or to U.S. persons, it will do so only through its U.S. registered broker-dealer, which may be its affiliate, pursuant to applicable U.S. securities laws.

### **Potential Conflicts of Interest**

The Underwriters and the Financial Adviser are acting exclusively for the Company and/or the Selling Shareholder and for no one else and will not regard any other person (whether or not a recipient of this Prospectus) as their respective clients in relation to the Offering. The Underwriters will not be responsible to anyone other than to the Company and/or the Selling Shareholder for the listing and trading of the Ordinary Shares and/or any other transaction or arrangement referred to in this Prospectus. Moreover, the Financial Adviser will not be responsible to anyone other than to the Company and/or the Selling Shareholder for giving advice in relation to the Offering.

Certain of the Underwriters and the Financial Adviser and/or their respective affiliates have in the past been engaged, and may in the future, from time to time, engage in commercial banking, investment banking and financial advisory and ancillary activities in the ordinary course of their business with the Company and/or the Selling Shareholder or any parties related to any of them, in respect of which they have received, and may in the future receive, customary fees and commissions. In addition, certain of the Underwriters and/or their respective affiliates, including, as applicable, their respective asset management affiliates, have in the past held, and may in the future, from time to time, hold positions in shares, bonds or other instruments of the Selling Shareholder or its affiliates or have derivatives related to these instruments.

In connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for its own account, may take up Offer Shares in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in this Prospectus to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the Underwriters or any of their respective affiliates acting in such capacity. None of the Underwriters intends to disclose the extent of any such investment or transactions otherwise than pursuant to any legal or regulatory obligation to do so. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Offer Shares.

As a result of acting in the capacities described above, the Underwriters may have interests that may not be aligned, or could potentially conflict, with investors' and the Company's interests.

### **Lock-up Arrangements**

The Joint Global Coordinators may, in their sole discretion and at any time, waive the restrictions, including those on sales, issuances or transfers of Ordinary Shares, described below.

Pursuant to the Underwriting Agreement, the Company and the Selling Shareholder are expected to agree with the Underwriters that, until 180 days from the Settlement Date (the lock-up period), they will not, except as set forth below, without the prior written consent of the Joint Global Coordinators: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequences of ownership of any Ordinary Shares, whether any such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise.

Each of the CEO and the CFO is expected to agree with the Underwriters that, until 360 days from the Settlement Date (the lock-up period), they will not, except as set forth below, without the prior written consent of the Joint Global Coordinators: (i) directly or indirectly, issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Ordinary Shares that he has purchased in the Offering as described in this Prospectus or any securities convertible into or exercisable or exchangeable for those Ordinary Shares; or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequences of ownership of any of those Ordinary Shares, whether any such transaction is to be settled by delivery of those Ordinary Shares or such other securities, in cash or otherwise.

The foregoing restrictions shall not apply to: (i) accepting a general offer to all holders of the issued and allotted Ordinary Shares of the Company on terms which treat all such holders alike and which has become or been declared unconditional in all respects or been recommended for acceptance by the directors of the Company; and (ii) the granting of awards in options or Ordinary Shares by the Company or the issuance of Ordinary Shares upon exercise of options granted by the Selling Shareholder or the Company pursuant to employee incentive schemes as disclosed or described as being proposed or contemplated in this Prospectus and other offer documents.

### **Over-Allotment and Stabilization**

In connection with the Offering, Goldman Sachs International, as the Stabilization Manager, or any of its agents, on behalf of the Underwriters may (but will be under no obligation to), to the extent permitted by applicable law, over-allot Shares or effect other transactions with a view to supporting the market price of the Shares at a higher level than that which might otherwise prevail in the open market. The Stabilization Managers will not be required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange (including Euronext Amsterdam) or otherwise and may be undertaken at any time during the period commencing on the First Trading Date and ending no later than 30 calendar days thereafter. The Stabilization Manager or any of its agents will not be obligated to effect stabilizing transactions, and there will be no assurance that stabilizing transactions will be undertaken. Such stabilizing transactions, if commenced, may be discontinued at any time without prior notice. Save as required by law or regulation, neither the Stabilization Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilization transactions under the Offering. The Underwriting Agreement will provide that the Stabilization Manager may, for purposes of stabilizing transactions, over-allot Shares up to a maximum number of Ordinary Shares equal to 15% of the total number of Offer Shares sold in the Offering.

In connection with the Over-Allotment Option, up to a maximum number of Ordinary Shares equal to 15% of the total number of Offer Shares will be made available by the Selling Shareholder through a securities loan to be entered into on or around the date of the Underwriting Agreement (the “**Stock Lending Agreement**”) to the Stabilization Manager.

None of the Company, the Selling Shareholder or any of the Underwriters and the Financial Adviser makes any representation or prediction as to the direction or the magnitude of any effect that the transactions described above may have on the price of the Shares or any other securities of the Company. In addition, none of the Company, the Selling Shareholder or any of the Underwriters and the Financial Adviser makes any representation that the Stabilization Manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.



## SELLING AND TRANSFER RESTRICTIONS

No action has been taken by the Company, the Selling Shareholder, the Underwriters or the Financial Adviser that would permit, other than pursuant to the Offering, an offer of the Offer Shares or possession or distribution of this Prospectus or any other offering material in any jurisdiction where action for that purpose is required. The distribution of this Prospectus and the offer of the Offer Shares in certain jurisdictions may be restricted by law.

Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

### United States

The Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold except: (i) in the U.S. only to persons reasonably believed to be QIBs in reliance on Rule 144A; and (ii) outside the United States in compliance with Regulation S, and in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, any of the Offer Shares as part of its allocation at any time except: (i) in the United States in transactions meeting the requirements of Rule 144A and only to those it reasonably believes to be QIBs or (ii) outside of the United States in compliance with Regulation S. Transfer of the Offer Shares will be restricted and each purchaser of the Offer Shares in the United States will be required to make certain acknowledgements, representations and agreements, as described below.

Any offer or sale in the United States will be made by affiliates of the Underwriters who are broker-dealers registered under the U.S. Exchange Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by a dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

### Rule 144A

Each purchaser of the Offer Shares within the United States will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision to purchase Shares and that:

1. The purchaser is authorized to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations.
2. The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority or any state of the United States, and are subject to significant restrictions on transfer.
3. The purchaser is, and at the time of its purchase of any Shares, will be a QIB.
4. The purchaser understands and acknowledges that sellers of the Shares may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A, and that the Shares may not be offered in sold, directly or indirectly, in the United States, other than in accordance with paragraph (6) below.
5. The purchaser is purchasing the Shares (i) for its own account, or (ii) for the account of one or more other QIBs for which it is acting as duly authorized fiduciary or agent with sole investment discretion with respect to each such account and with full authority to make the acknowledgments, representations and agreements herein with respect to each such account (in which case it hereby makes such acknowledgments, representations and agreements on behalf of such QIBs as well), in each case for investment and not with a view to any resale or distribution of any such Shares.
6. The purchaser understands and agrees that all offers and sales in the United States will be made only to persons reasonably believed to be QIBs in reliance on Rule 144A, and that if, in the future, the purchaser or any such other QIBs for which it is acting, as described in paragraph (4) above, or any other fiduciary or agent representing such purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, as the case may be, such Shares may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and / or any person acting on its behalf

reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction meeting the requirements of Regulation S, (iii) in accordance with Rule 144 under the U.S. Securities Act (if available), (iv) pursuant to any other exemption from the registration requirements of the U.S. Securities Act, subject to the receipt by the Company of an opinion of counsel or such other evidence that the Company may reasonably require that such sale or transfer is in compliance with the U.S. Securities Act or (v) pursuant to an effective registration statement under the U.S. Securities Act, and in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction.

7. The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares.
8. The purchaser understands that the Offer Shares may be “restricted securities” within the meaning of Rule 144(a)(3) and that no representation is made as to the availability of the exemption provided by Rule 144 under the U.S. Securities Act for resales of any Offer Shares, as the case may be.
9. The purchaser understands that the Offer Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (I) TO A PERSON WHOM THE BENEFICIAL OWNER AND / OR ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE U.S. SECURITIES ACT, (II) OUTSIDE THE UNITED STATES IN A TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE U.S. SECURITIES ACT, (III) IN ACCORDANCE WITH RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), (IV) PURSUANT TO ANY OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT TO THE RECEIPT BY THE COMPANY OF AN OPINION OF COUNSEL OR SUCH OTHER EVIDENCE THAT THE COMPANY MAY REASONABLY REQUIRE THAT SUCH SALE OR TRANSFER IS IN COMPLIANCE WITH THE U.S. SECURITIES ACT OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR TERRITORY OF THE UNITED STATES OR ANY OTHER JURISDICTION. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RELEASE OF THIS SECURITY.

10. The Company shall not recognize any offer, sale pledge or other transfer of the Offer Shares made other than in compliance with the above restrictions.
11. The purchaser acknowledges that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Selling Shareholder, the Underwriters and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. The purchaser irrevocably authorizes the Company, the Selling Shareholder and the Underwriters to produce this Prospectus to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered herein.
12. The purchaser will not deposit or cause to be deposited any Offer Shares into any depository receipt facility established or maintained by a depository bank other than a Rule 144A restricted depository receipt facility, so long as such Offer Shares are “restricted securities” within the meaning of Rule 144(a)(3).
13. The purchaser undertakes promptly to notify the Company, the Selling Shareholder and the Underwriters, at time prior to the purchase of Shares, any of the foregoing ceases to be true.

**Prospective purchasers are hereby notified that sellers of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A.**

## **Regulation S**

Each purchaser of the Offer Shares outside the United States will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision to purchase Shares and that:

1. The purchaser is authorized to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations.
2. The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority or any state of the United States, and are subject to significant restrictions on transfer.
3. The purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares to any person in the United States.
4. The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares.
5. The purchaser is aware of the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this Prospectus.
6. The Offer Shares have not been offered to it by means of any “directed selling efforts” as defined in Regulation S.
7. The Company shall not recognize any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above restrictions.
8. The purchaser acknowledges that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Selling Shareholder, the Underwriters and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. The purchaser irrevocably authorizes the Company, the Selling Shareholder and the Underwriters to produce this Prospectus to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered herein.
9. The purchaser undertakes promptly to notify the Company, the Selling Shareholder and the Managers if, at any time prior to the purchase of Shares, any of the foregoing ceases to be true.

## **European Economic Area**

In relation to each member state of the European Economic Area (the “**EEA**”) which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer to the public of any Offer Shares which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State, except (i) in the Netherlands once this Prospectus has been approved by the AFM and published in accordance with the Prospectus Directive and the relevant provisions of the FMSA or (ii) in that Relevant Member State at any time under the following exemptions under the Prospectus Directive:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State, subject to obtaining the prior consent of the Joint Global Coordinators; or
- in any other circumstances falling within the scope of Article 3(2) of the Prospectus Directive,

provided that no such offer of Offer Shares shall require the Company or any Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplement to the prospectus pursuant to Article 16 of the Prospectus Directive.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will be deemed to have represented, acknowledged and agreed that the Offer Shares acquired by it in the Offering contemplated in this Prospectus have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or

resale to, persons in circumstances which may give rise to an offer of any Offer Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as defined in the Prospectus Directive or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale. The Selling Shareholder and the Underwriters and their respective affiliates and others will rely (and the Selling Shareholder acknowledges that the Underwriters and their respective affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of this provision, the expression an “offer to the public” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and any Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

### **United Kingdom**

This Prospectus is being distributed in the United Kingdom only to, and is directed only at, qualified investors within the meaning of Article 2(1) of the Prospectus Directive who are: (i) investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”); or (ii) persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc”) of the Order (all such persons together being referred to as “**Relevant Persons**”). In the United Kingdom, any investment activity to which this Prospectus relates is only available to, and will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on it or any of its contents.

### **Australia**

This document (a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia (“**Corporations Act**”); (b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act; has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission (“**ASIC**”), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and (c) may not be provided in Australia other than to select investors (“**Exempt Investors**”) who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (ii) are “wholesale clients” for the purpose of section 761G of the Corporations Act.

The Offer Shares may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the Offer Shares may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any Offer Shares may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the Offer Shares, each purchaser or subscriber of Offer Shares represents and warrants to the Company, the Selling Shareholder, the Underwriters and their affiliates that such purchaser or subscriber is an Exempt Investor.

As any offer of Offer Shares under this document, any supplement or the accompanying prospectus or other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those Offer Shares for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the Offer Shares each purchaser or subscriber of Offer Shares undertakes to the Company, the Selling Shareholder, and the Underwriters that such purchaser or subscriber will not, for a period of 12 months from the date of issue or purchase of the Offer Shares, offer, transfer, assign or otherwise alienate those Offer Shares to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

### **Canada**

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.



## TAXATION

### Taxation in the Netherlands

This section is intended as general information only and it does not present any comprehensive or complete description of all aspects of Dutch tax law which could be of relevance to a (prospective) Shareholder. For Dutch tax purposes, a Shareholder may include an individual who or an entity that does not have the legal title of the Shares, but to whom nevertheless the Shares are attributed, based either on such individual or entity owning a beneficial interest in the Shares or based on specific statutory provisions. These include statutory provisions pursuant to which Shares are attributed to an individual who is, or who has directly or indirectly inherited from a person who was, the settlor, grantor or similar originator of a trust, foundation or similar entity that holds the Shares.

Prospective holders of Shares should consult their own tax adviser regarding the tax consequences of any acquisition, holding or disposal of Shares.

This paragraph is based on Dutch tax law as applied and interpreted by Dutch tax courts and as published and in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

For the purpose of this paragraph, “**Dutch Taxes**” shall mean taxes of whatever nature levied by or on behalf of the Netherlands or any of its subdivisions or taxing authorities. The Netherlands means the part of the Kingdom of the Netherlands located in Europe.

Any reference hereafter made to a treaty for the avoidance of double taxation concluded by the Netherlands includes the Tax Regulation for the Kingdom of the Netherlands (*Belastingregeling voor het Koninkrijk*), the Tax Arrangement The Netherlands Curaçao (*Belastingregeling Nederland Curaçao*), the Tax Regulation for the country of the Netherlands (*Belastingregeling voor het land Nederland*) and the Agreement between the Taipei Representative Office in the Netherlands and the Netherlands Trade and Investment Office in Taipei for the avoidance of double taxation.

This section does not describe the possible Dutch tax considerations or consequences that may be relevant to a Shareholder:

- (i) who is an individual and for whom the income or capital gains derived from the Shares are attributable to employment activities, the income from which is taxable in the Netherlands;
- (ii) who has, or that has a (fictitious) substantial interest in the Company within the meaning of Section 4 of the Dutch Income Tax Act 2001 (*Wet op de inkomstenbelasting 2001*);
- (iii) that is an entity which is not subject to Dutch corporate income tax or is in full or in part exempt from Dutch corporate income tax (such as pension funds);
- (iv) that is an investment institution (*beleggingsinstelling*) as described in article 6a and 28 of the Dutch Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*, “**CITA**”) respectively; or
- (v) that is entitled to the participation exemption (*deelnemingsvrijstelling*) or the participation credit (*deelnemingsverrekening*) with respect to the Shares (as defined in articles 13 CITA and 13aa CITA respectively).

### **Withholding tax**

A Shareholder is generally subject to Dutch dividend withholding tax at a rate of 15% on dividends distributed by the Company. Generally, the Company is responsible for the withholding of such dividend withholding tax at source; the dividend withholding tax is for the account of the Shareholder.

Dividends distributed by the Company include, but are not limited to:

- (i) distributions of profits in cash or in kind, whatever they be named or in whatever form;
- (ii) proceeds from the liquidation of the Company, or proceeds from the repurchase of shares by the Company, in excess of the average paid-in capital recognized for Dutch dividend withholding tax purposes;
- (iii) the par value of shares issued to a shareholder or an increase in the par value of shares, if and to the extent that no related contribution, recognized for Dutch dividend withholding tax purposes, has been made or will be made; and

- (iv) partial repayment of paid-in capital, that is not recognized for Dutch dividend withholding tax purposes, or recognized for Dutch dividend withholding tax purposes, to the extent that the Company has “net profits” (*zuivere winst*), unless:
- (a) the General Meeting has resolved in advance to make such repayment; and
  - (b) the par value of the shares concerned has been reduced with an equal amount by way of an amendment to the articles of association of the Company.

The term “net profits” includes anticipated profits that have yet to be realized.

Subject to certain exceptions under Dutch domestic law, the Company may not be required to transfer to the Dutch tax authorities the full amount of Dutch dividend withholding tax withheld in respect of dividends distributed by the Company, if the Company has received a profit distribution from a qualifying foreign subsidiary (as described in article 11 of the Dutch Dividend Withholding Tax Act 1965 (*Wet op de dividendbelasting* 1965 (“**DWTA**”)), which distribution (i) is exempt from Dutch corporate income tax and (ii) has been subject to a foreign withholding tax of at least 5%. The amount that does not have to be transferred to the Dutch tax authorities can generally not exceed the lesser of (a) 3% of the dividends distributed by the Company on which Dutch dividend withholding tax has been withheld and (b) 3% of the profit distributions the Company received from qualifying foreign subsidiaries in the calendar year in which the Company distributes the dividends (up to the moment of such dividend distribution) and the two previous calendar years; further limitations and conditions apply. The Company will, upon request, provide shareholders with information regarding the Dutch dividend withholding tax that was not transferred to the Dutch tax authorities by the Company.

If a Shareholder is resident or deemed to be resident in the Netherlands, such Shareholder is generally entitled to an exemption or a full credit for any Dutch dividend withholding tax against his Dutch (corporate) income tax liability and to a refund of any residual Dutch dividend withholding tax.

If a Shareholder is resident in a country other than the Netherlands and depending on its individual circumstances, an exemption from, reduction, or (full or partial) refund of, Dutch dividend withholding tax may be available pursuant to Dutch domestic law, European (case) law or treaties for avoidance of double taxation.

A Shareholder who is considered to be resident in the United States (a “**U.S. Shareholder**”) and is entitled to the benefits of the 1992 Double Taxation Treaty between the United States and the Netherlands, as amended most recently by the Protocol signed 8 March 2004 (the “**Treaty**”), will be entitled to an exemption from or a reduction of Dutch dividend withholding tax if the U.S. Shareholder is an exempt pension trust as described in article 35 of the Treaty or an exempt organisation as described in article 36 of the Treaty, the U.S. Shareholder will be exempt from Dutch dividend withholding tax.

According to Dutch domestic anti-dividend stripping rules, no credit against Dutch (corporate) income tax, exemption from, reduction of or refund of, Dutch dividend withholding tax will be granted if the recipient of the dividends paid by the Company is not considered to be the beneficial owner (*uiteindelijk gerechtigde*) of such dividends as meant in these rules.

The DWTA provides for a non-exhaustive negative description of a beneficial owner. According to the DWTA, a Shareholder will among other things not be considered the beneficial owner of the dividends for this purpose if:

- as a consequence of a combination of transactions, a person other than the Shareholder wholly or partly directly or indirectly benefits from the dividends;
- whereby such other person retains or acquires, directly or indirectly, an interest similar to that in the Shares on which the dividends were paid; and
- that other person is entitled to a credit, reduction or refund of dividend withholding tax that is less than that of the Shareholder.

### ***Taxes on income and capital gains***

#### ***Residents in the Netherlands***

The description of certain Dutch tax consequences in this paragraph is only intended for the following Shareholders:

- (i) individuals who are resident or deemed to be resident in the Netherlands for Dutch income tax purposes (“**Dutch Individuals**”); and
- (ii) entities that are subject to the CITA and are resident or deemed to be resident in the Netherlands for Dutch corporate income tax purposes (“**Dutch Corporate Entities**”).

#### *Dutch Individuals engaged or deemed to be engaged in an enterprise or in miscellaneous activities*

Dutch Individuals are generally subject to income tax at statutory progressive rates with a maximum of 52% (2016) with respect to any benefits derived or deemed to be derived from Dutch Enterprise Shares (as defined below), including any capital gains realized on the disposal or transfer thereof.

“**Dutch Enterprise Shares**” are Shares, or rights to derive benefits from Shares:

- (i) that are either attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder / holder of depositary receipts); or
- (ii) the benefits of which are attributable to miscellaneous activities (*resultaat uit overige werkzaamheden*), including, without limitation, activities which are beyond the scope of active portfolio investment activities.

#### *Dutch Individuals not engaged or deemed to be engaged in an enterprise or in miscellaneous activities*

Generally, a Dutch Individual who owns Shares, excluding Dutch Enterprise Shares, will be subject annually to an income tax imposed on a fictitious yield on such Shares. The Shares held by such Dutch Individual will be taxed under the regime for savings and investments (*inkomen uit sparen en beleggen*). Irrespective of the actual income or capital gains realized, the annual taxable benefit of all the assets and liabilities of a Dutch Individual that are taxed under this regime, including the Shares, is set at a fixed amount. The fixed amount equals 4% of the fair market value of the assets (including, as the case may be, the Shares) reduced by the liabilities and measured, in general, exclusively on 1 January of every calendar year. The tax rate under the regime for savings and investments is a flat rate of 30% (2016). Taxation only occurs if and to the extent the fair market value of the assets, including the Shares, reduced by the liabilities exceeds a certain threshold (*heffingvrij vermogen*). In the 2016 Dutch Tax Plan, and the legislative proposals that form part thereof, a change to the current legislation regarding the taxation regime for savings and investments is proposed to be entered into force as of 1 January 2017.

#### *Dutch Corporate Entities*

Dutch Corporate Entities are generally subject to corporate income tax at statutory rates up to 25% (2016) with respect to any benefits derived or deemed to be derived (including any capital gains realized on the disposal thereof) of the Shares. A reduced rate of 20% (2016) applies to the first €200,000 of taxable profits.

#### *Non-residents in the Netherlands*

A Shareholder other than a Dutch Individual or a Dutch Corporate Entity will not be subject to any Dutch Taxes on income or capital gains in respect of the purchase, ownership and disposal or transfer of the Shares, other than withholding tax as described above, except if:

- (i) the Shareholder, whether an individual or not, derives profits from an enterprise, whether as entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder / holder of depositary receipts, which enterprise is, in whole or in part, carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in the Netherlands, to which the Shares are attributable;
- (ii) the Shareholder is an individual and derives benefits from miscellaneous activities carried out in the Netherlands (*resultaat uit overige werkzaamheden in Nederland*) in respect of the Shares, including (without limitation) activities which are beyond the scope of active portfolio investment activities;
- (iii) the Shareholder is not an individual and is entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of enterprise, other than by way of securities, which enterprise is effectively managed in the Netherlands and to which enterprise the Shares are attributable; or
- (iv) the Shareholder is an individual and is entitled to a share in the profits of an enterprise, other than by way of securities, or through an employment relationship, which enterprise is effectively managed in the Netherlands and to which enterprise the Shares are attributable.

#### *Gift tax or inheritance tax*

No Dutch gift tax or inheritance tax is due in respect of any gift of the Shares by, or inheritance of the Shares on the death of, a Shareholder, except if:

- (i) at the time of the gift or death of the Shareholder, the Shareholder is resident, or is deemed to be resident, in the Netherlands;

- (ii) the Shareholder passes away within 180 days after the date of the gift of the Shares and is not, or not deemed to be, at the time of the gift, but is, or deemed to be, at the time of his death, resident in the Netherlands; or
- (iii) the gift of the Shares is made under a condition precedent and the Shareholder is resident, or is deemed to be resident, in the Netherlands at the time the condition is fulfilled.

For purposes of Dutch gift tax or inheritance tax, an individual who is of Dutch nationality will be deemed to be resident in the Netherlands if such individual has been resident in the Netherlands at any time during the 10 years preceding the date of the gift or his death. For purposes of Dutch gift tax, any individual, irrespective of his nationality, will be deemed to be resident in the Netherlands if such individual has been resident in the Netherlands at any time during the 12 months preceding the date of the gift.

#### *Other taxes and duties*

No other Dutch Taxes, including value added taxes and taxes of a documentary nature, such as capital tax, stamp or registration tax or duty, are payable by or on behalf of a Shareholder by reason only of the purchase, ownership and disposal or transfer of the Shares.

#### *Residency*

A Shareholder will not become resident, or deemed resident, in the Netherlands for tax purposes by reason only of the purchase, ownership and disposal or transfer of the Shares.

#### **Certain U.S. Federal Income Tax Considerations**

This section describes the material U.S. federal income tax consequences of owning Offer Shares. It applies to you only if you acquire your Offer Shares in this offering and you hold your Offer Shares as capital assets for tax purposes. This section does not address all of the U.S. federal income tax consequences that may apply to you, and your U.S. federal income tax consequences may be different than those described below, if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of the Company's voting stock;
- a person that holds Offer Shares as part of a straddle or a hedging or conversion transaction;
- a person that holds Offer Shares in connection with a trade or business outside the United States;
- a person that purchases or sells Offer Shares as part of a wash sale for tax purposes; or
- a U.S. holder (as defined below) whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, and published rulings and court decisions, as well as on the Treaty. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds the Offer Shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Offer Shares should consult its tax advisor with regard to the U.S. federal income tax treatment of an investment in the Offer Shares.

You are a U.S. holder if you are a beneficial owner of Offer Shares and you are:

a citizen or resident of the United States;

a domestic corporation;

an estate whose income is subject to U.S. federal income tax regardless of its source; or

a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

A "**non-U.S. holder**" is a beneficial owner of Offer Shares that is not a U.S. person for U.S. federal income tax purposes.

*You should consult your own tax advisor regarding the U.S. federal, state and local and other tax consequences of owning and disposing of Offer Shares in your particular circumstances.*

## **U.S. holders**

### *Dividends*

Under the U.S. federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend (including the amount of Dutch taxes withheld, but excluding any amount not paid to the Dutch tax authorities, as described below) the Company pays out of its current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) is subject to U.S. federal income taxation. If you are a noncorporate U.S. holder, dividends that constitute qualified dividend income will generally be taxable to you at the preferential rates applicable to long-term capital gains provided that certain holding period requirements are met. Dividends the Company pays with respect to the Offer Shares may be qualified dividend income. If you are a noncorporate U.S. holder, you should consult your tax advisors regarding the availability of these preferential rates in your particular circumstances.

You must include any Dutch tax withheld from the dividend payment in this gross amount even though you do not in fact receive it (but excluding any amount not paid to the Dutch tax authorities, as described below). The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the euro payments made, determined at the spot euro/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the Offer Shares and thereafter as capital gain. However, the Company does not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Accordingly, you should expect to generally treat distributions the Company makes as dividends.

Subject to applicable limitations, some of which vary depending upon your circumstances, Dutch income taxes withheld from dividends on Offer Shares at a rate not exceeding any applicable Treaty rate will be creditable against your U.S. federal income tax liability. As described in “Taxation in the Netherlands—Withholding Tax”, upon making a distribution to shareholders, the Company is required to withhold Dutch taxes but may be permitted to retain a portion of the amounts withheld. The amount of Dutch withholding tax that the Company may retain reduces the amount of dividend withholding tax that the Company is required to pay to the Dutch tax authorities but does not reduce the amount of tax the Company is required to withhold from dividends paid to U.S. holders. In these circumstances, it is likely that the portion of dividend withholding tax that the Company is not required to pay to the Dutch tax authorities with respect to dividends distributed to U.S. holders would not qualify as a creditable tax for U.S. foreign tax credit purposes. The rules governing foreign tax credits are complex, and you should consult your tax adviser regarding the creditability of foreign taxes in your particular circumstances. In addition, special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to preferential rates.

Dividends will generally be income from sources outside the United States and will, depending on your circumstances, be either “passive” or “general” income for purposes of computing the foreign tax credit allowable to you.

### *Capital gains*

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your Offer Shares, you will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your Offer Shares. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

### *Medicare tax*

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder’s “net investment income” (or



“undistributed net investment income” in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder’s modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual’s circumstances). A holder’s net investment income generally includes its dividend income and its net gains from the disposition of Offer Shares, unless such dividend income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Offer Shares.

### ***Non-U.S. holders***

#### ***Dividends***

If you are a non-U.S. holder, dividends paid to you in respect of Offer Shares will not be subject to U.S. federal income tax unless the dividends are “effectively connected” with your conduct of a trade or business within the United States, and the dividends are attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to U.S. taxation on a net income basis. In such cases, you generally will be taxed in the same manner as a U.S. holder. If you are a corporate non-U.S. holder, “effectively connected” dividends may, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

#### ***Capital gains***

If you are a non-U.S. holder, you will not be subject to U.S. federal income tax on gain recognized on the sale or other disposition of your Offer Shares unless:

- the gain is “effectively connected” with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to U.S. taxation on a net income basis; or
- you are an individual, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist.

If you are a corporate non-U.S. holder, “effectively connected” gains that you recognize may also, under certain circumstances, be subject to an additional “branch profits tax” at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

### ***PFIC rules***

The Company believes that the Offer Shares should not be treated as stock of a PFIC for U.S. federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

If the Company were to be treated as a PFIC, gain realized on the sale or other disposition of your Offer Shares would in general not be treated as capital gain. Instead, you would be treated as if you had realized such gain and certain “excess distributions” ratably over your holding period for the Offer Shares. Amounts allocated to the taxable year of disposition and to years before the Company became a PFIC will be taxed as ordinary income. The amounts allocated to each other taxable year would generally be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your Offer Shares will be treated as stock in a PFIC if the Company were a PFIC at any time during your holding period in your Offer Shares. Dividends that you receive from the Company will not be eligible for the special tax rates applicable to qualified dividend income if the Company is a PFIC (or is treated as a PFIC with respect to you) either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the Offer Shares. You should consult your tax adviser to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in your particular circumstances.

You should consult your tax adviser regarding whether the Company is a PFIC and the potential application of the PFIC rules to your ownership of Offer Shares for any taxable year.

### ***Information with respect to foreign financial assets***

Owners of “specified foreign financial assets” with an aggregate value in excess of \$50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” may include financial accounts maintained by foreign

financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Offer Shares.

***Backup withholding and information reporting***

If you are a noncorporate U.S. holder, information reporting requirements, on IRS Form 1099, generally will apply to dividend payments or other taxable distributions made to you within the United States, and the payment of proceeds to you from the sale of Offer Shares effected at a U.S. office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements or are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

If you are a non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to dividend payments made to you outside the United States by us or another non-U.S. payor. You are also generally exempt from backup withholding and information reporting requirements in respect of dividend payments made within the United States and the payment of the proceeds from the sale of Offer Shares effected at a U.S. office of a broker, as long as either (i) the payor or broker does not have actual knowledge or reason to know that you are a U.S. person and you have furnished a valid IRS Form W-8 or other documentation upon which the payor or broker may rely to treat the payments as made to a non-U.S. person, or (ii) you otherwise establish an exemption.

Payment of the proceeds from the sale of Offer Shares effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

## INDEPENDENT AUDITORS

KPMG, independent auditors with their address at Laan van Langerhuize 1, 1186 DS Amstelveen, the Netherlands, have audited and rendered an unqualified auditor's report on the Combined Financial Statements as included in this Prospectus.

KPMG has no interest in the Company. KPMG is an independent registered accounting firm. KPMG is governed by Dutch law in the Netherlands and is subject to inspection by the AFM. The AFM has granted KPMG a license to perform financial statement audits of public interest entities. The auditor who signed the auditor's report on behalf of KPMG is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

The Condensed Combined Interim Financial Statements has not been audited. EY, an independent registered accounting firm with its address at Cross Towers, Antonio Vivaldistraat 150, 1083 HP Amsterdam, the Netherlands, has issued a review report of the Condensed Combined Interim Financial Statements as of and for the three month period ended 31 March 2016 as set forth in their report thereon. This independent auditor's review report is included in this Prospectus. EY has no interest in the Company. The auditor who signs the review report on behalf of EY is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*).

KPMG and EY have given, and have not withdrawn, their consent to the inclusion of their reports in this Prospectus in the form and context in which they are included. As the Offer Shares have not been and will not be registered under the U.S. Securities Act, KPMG and EY have not filed any consent under the U.S. Securities Act.

The Company confirms that the information in the auditor's report and the review report included in this Prospectus has been accurately reproduced and that as far as the Company is aware and able to ascertain from information published by the auditors, no facts have been omitted which would render the auditor's report and review report inaccurate or misleading.

As decided by the general meeting of the Selling Shareholder on 7 May 2015 pursuant to an auditor rotation requirement under Dutch law, EY was appointed as its new independent auditor effective 1 January 2016 succeeding KPMG. EY is the external auditor of the Group as of 2016.

## GENERAL INFORMATION

### Significant Change in the Company's Financial or Trading Position

No significant change in the financial or trading position of the Group has occurred since 31 March 2016.

### Use of Proceeds

The Company will not receive any proceeds from the Offering, the net proceeds of which will be received by the Selling Shareholder.

After deducting the estimated expenses, commissions and taxes related to the Offering payable by the Selling Shareholder of approximately €47,000,000, the Selling Shareholder expects to receive approximately €721,750,000 in net proceeds from the Offering (based on an Offer Price at the mid-point of the Offer Price Range and assuming the sale of the maximum number of Offer Shares by the Selling Shareholder and no exercise of the Over-Allotment Option that is to be granted by the Selling Shareholder in connection with the Offering). The Selling Shareholder is also expected, after and conditional on Settlement, receive approximately €500,000 from the CEO and approximately €250,000 from the CFO for the sale to the CEO and CFO of Ordinary Shares at the Offer Price.

### Expenses of the Offering

The expenses related to the Offering are estimated at approximately €47 million and include, among other items, the fees due to the AFM and Euronext Amsterdam N.V., the commission for the Underwriters, and legal and administrative expenses, as well as publication costs and applicable taxes, if any. These expenses are borne by the Selling Shareholder.

### Availability of Documents

The following documents (or copies thereof) may be obtained free of charge from the Company's website ([www.lighting.philips.com/main/company](http://www.lighting.philips.com/main/company)):

- this Prospectus;
- the Articles of Association;
- the Pricing Statement;
- the Board of Management Rules;
- the Supervisory Board Rules;
- the charter of the Audit Committee;
- the charter of the Corporate Governance and Nomination & Selection Committee;
- the charter of the Remuneration Committee; and
- the Relationship Agreement.

In addition, copies of the above documents, with the exception of the Pricing Statement, will be available free of charge at the Company's offices during normal business hours from the date of this Prospectus. The Pricing Statement will be available after pricing of the Offering.

## GLOSSARY

<b>Agent</b>	Independent parties with exclusive rights to sell a manufacturer's products in an assigned territory and who are compensated on a commission basis.
<b>Automotive lighting</b>	All elements of lighting systems in cars including electronics, luminaires and lamps.
<b>Backlighting</b>	Lighting used in devices such as TVs, smartphones and tablets.
<b>Ballasts</b>	Lamp control gear inserted between the supply and one or more discharge lamps, which, by means of inductance, capacitance or a combination of inductance and capacitance, serves mainly to limit the current of the lamp(s) to the required value.
<b>Compact fluorescent light</b>	Lamps that combine a fluorescent light with an incandescent fixture (including integrated compact fluorescent light, which have the driver integrated in the lamp and are mainly being used in home applications, and non-integrated compact fluorescent light, without an integrated driver, which are mainly used in office and hospitality applications).
<b>Conventional lamps</b>	Non-LED based light emitting light sources, including incandescent lamps, halogen lamps, fluorescent lamps and HID lamps.
<b>Conventional lamp drivers</b>	Lighting electronics which are needed to operate gas discharge lamps (fluorescent lamps and HID lamps) and low voltage halogen lamps.
<b>Conventional luminaires</b>	Light fixtures with a conventional socket ( <i>e.g.</i> , a screw socket for a conventional lamp or LED lamp).
<b>Distributor</b>	A person or company that buys products from the Group (thereby becoming the owner of the products), promotes these products and resells these products to its (end) customers for its own account and risk. The Distributor's remuneration is the income made from re-selling the products.
<b>Electromagnetic ballasts</b>	A device that uses the principle of electromagnetic induction to start and control the operation of an electric discharge lamp, such as fluorescent lamp or metal halide lamps. The typical construction is the assembly of a coil made of copper or aluminum magnet wire on a magnetic core made of electrical steel.
<b>Electronics</b>	Units that regulate the current going through a light source.
<b>Fluorescent lamp</b>	A lamp which produces light with an electric current conducted through an inert gas producing ultraviolet light that is invisible to the human eye.
<b>General lighting</b>	A segment comprising of lamps, electronics, professional (including professional luminaires, systems and services for professional end-customers) and consumer (including consumer luminaires and lighting systems for consumer use in the home).
<b>Halogen lamp</b>	A type of incandescent lamp with a capsule that holds a special halogen gas composition around the heated filament to increase the efficacy of the incandescence.
<b>High intensity discharge lamp</b>	A type of conventional lamp that use electricity arcs between two electrodes to create an intensely bright light where mercury, sodium, or metal halide gas act as the conductor.
<b>Incandescent lamp</b>	A conventional lamp that produces visible light by heating a tungsten filament inside a glass bulb usually filled with an inert gas.
<b>LED drivers</b>	Lighting electronics that convert input power into a current which remains constant despite fluctuations in voltage.



<b>LED lamp</b>	A solid-state semiconductor device that converts electrical energy directly into light.
<b>LED luminaires</b>	Light fixtures where LED modules are integrated into the luminaire as light source and cannot be separated from the luminaire by the user.
<b>LED modules</b>	Light generating units around which luminaires are built for the purpose of emitting distributed patterns of light.
<b>Light-as-a-service contract</b>	Contracts enabling an integrated solution for customers where customers pay for the provision of light to their premises, while the Group plans and builds the lighting infrastructure and ensures its performance until the end of the contract.
<b>Lighting services</b>	Services offered to customers building on a lighting system and enabled by data.
<b>Lighting systems</b>	The combination of luminaires, controls and software. The automation and related controls of lighting within a room, building or outdoor facilities for end-users.
<b>Linear fluorescent light</b>	Longitudinal or circular gas-discharge lamps, often called tubular linear lamps.
<b>Luminaire</b>	Electrical devices that produce, control and distribute light. Also called light fixtures. They consist of one or more light sources, lamps or sockets that connect the lamps to the electrical power (as well as drivers in some luminaires), and the mechanical components required to support or attach the housing.
<b>Specifier</b>	A company that is partly or wholly involved in the prescription of lighting products.
<b>Switch</b>	Wall mounted devices designed to (i) change the electric connections among its terminals or (ii) engage with the pins of a plug and having terminals for the connection of cables or cords ( <i>i.e.</i> , socket contacts).

## DEFINITIONS

The following definitions are used in this Prospectus:

<b>ABN AMRO</b>	ABN AMRO Bank N.V.
<b>AFM</b>	The Netherlands Authority for the Financial Markets (Stichting Autoriteit Financiële Markten)
<b>Allocation</b>	The allocation of the Offer Shares
<b>Annual Accounts</b>	The annual accounts referred to in Section 2:391 of the Dutch Civil Code
<b>Articles of Association</b>	The articles of association of the Company as they will take effect on or prior to the Settlement Date
<b>APAC</b>	Asia-Pacific
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>ASIC</b>	The Australian Securities and Investments Commission
<b>BCG</b>	Boston Consulting Group
<b>BCG Report</b>	BCG, How to Win in a Transforming Lighting Industry, 2015
<b>Board of Management</b>	The board of management ( <i>raad van bestuur</i> ) of the Company
<b>Board of Management Rules</b>	The rules of the Board of Management effective ultimately on the Settlement Date
<b>Business Groups or BGs</b>	BG Lamps, BG LED, BG Home and BG Professional
<b>B2B</b>	Business-to-business
<b>CAGR</b>	Compound annual growth rate
<b>CET</b>	Central European Time
<b>CFL</b>	Compact fluorescent light
<b>CFLi</b>	Integrated CFLs
<b>CFLni</b>	Non-integrated CFLs
<b>CITA</b>	Dutch Corporate Income Tax Act 1969 ( <i>Wet op de vennootschapsbelasting 1969</i> )
<b>Citigroup</b>	Citigroup Global Markets Limited
<b>CLP Regulation</b>	Regulation (EC) No 1272/2008 on classification, labelling and packaging of chemical substances and preparations
<b>CNLA</b>	Company name license agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016
<b>Co-Bookrunners</b>	ABN AMRO and Rabobank in their capacity as co-bookrunners
<b>Company</b>	Philips Lighting N.V. (at the date of this prospectus still a private limited liability company ( <i>besloten vennootschap met beperkte aansprakelijkheid</i> ) named Philips Lighting NewCo B.V., expected to be converted into a public company with limited liability ( <i>naamloze vennootschap</i> ) on or prior to the Settlement Date
<b>Combined Financial Statements</b>	The combined financial statements of the Group as of and for the years ended 31 December 2015, 2014 and 2013
<b>Condensed Combined Interim Financial Statements</b>	The condensed combined interim financial statements of the Group for the three-month periods ended 31 March 2016 and 2015 and as of 31 March 2016
<b>Corporations Act</b>	The Corporations Act 2001 of the Commonwealth of Australia
<b>DCC</b>	Dutch Civil Code

<b>Deed of Amendment</b>	The notarial deed of amendment and conversion of the Company, which deed will be executed prior to Settlement
<b>DIY</b>	Do-it-yourself
<b>DoE</b>	U.S. Department of Energy
<b>DPL</b>	Digital projection lighting systems
<b>Dutch Corporate Entities</b>	Entities that are subject to the CITA and are resident or deemed to be resident in the Netherlands for corporate income tax purposes
<b>Dutch Corporate Governance Code or Code</b>	The Dutch corporate governance code issued on 9 December 2003 and as amended as of 1 January 2009
<b>Dutch Enterprise Shares</b>	Ordinary shares or any right to derive benefits from ordinary shares which are attributable to an enterprise from which a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder) or of which the benefits are taxable in the hands of a Dutch Individual as benefits from miscellaneous activities including, without limitation, activities which are beyond the scope of active portfolio investment activities
<b>Dutch Individuals</b>	Individuals who are resident or deemed to be resident in the Netherlands for Dutch income tax purposes or individuals who opt to be treated as if resident in the Netherlands for Dutch income tax purposes
<b>Dutch Retail Investor</b>	A Dutch retail investor is either: (i) a natural person resident in the Netherlands which also includes those employees of the Group who meet the terms and conditions that will be communicated directly to them; or (ii) a special investment vehicle having its seat in the Netherlands which is a legal entity established for the express and sole purpose of providing asset management and/or retirement planning services for a natural person
<b>Dutch Taxes</b>	Taxes of whatever nature levied by or on behalf of the Netherlands or any of its subdivisions or taxing authorities
<b>DWTA</b>	Dutch Dividend Withholding Tax Act 1965 ( <i>Wet op de dividendbelasting 1965</i> )
<b>EEA</b>	European Economic Area
<b>EEE</b>	Electrical and electronic equipment
<b>Effective Time</b>	The date of transfer of assets, liabilities, employees and contracts of the former Royal Philips group between Royal Philips and the Group (on or around 1 February 2016).
<b>EMEA</b>	Europe, Middle East and Africa
<b>Enterprise Chamber</b>	The Dutch enterprise chamber of the court of appeal in Amsterdam
<b>ErP-Directive</b>	The Framework Directive 2009/125/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for the setting of eco-design requirements for energy-related products (also called Energy-related Products Directive)
<b>EU</b>	European Union
<b>EUR or euro or €</b>	The lawful currency of the European Economic and Monetary Union
<b>Euroclear Nederland</b>	Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.
<b>Euronext Amsterdam</b>	Euronext in Amsterdam, a regulated market of Euronext Amsterdam N.V.

<b>Exempt Investors</b>	Select investors who are able to demonstrate that they (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act and (ii) are “wholesale clients” for the purpose of section 761G of the Corporations Act
<b>External IT Services Period</b>	The period during which the Group is no longer under control of Royal Philips and during which Philips Electronics shall extend only limited use and access rights of certain IT services to the Group pursuant to the IT TSLA. During this period, the Group is responsible for acquiring the right to use and to benefit from third party software
<b>EY</b>	Ernst & Young Accountants LLP
<b>First Trading Date</b>	The date on which trading on an “as-if-and-when-delivered” basis in the Ordinary Shares on Euronext Amsterdam commences, which is expected to be 27 May 2016
<b>FMSA</b>	Dutch Financial Markets Supervision Act ( <i>Wet op het financieel toezicht</i> )
<b>Foundation</b>	Stichting Continuïteit Philips Lighting
<b>FRSA</b>	Dutch Financial Reporting Supervision Act ( <i>Wet toezicht financiële verslaggeving</i> )
<b>FTEs</b>	Full time equivalent personnel
<b>GBP</b>	General Business Principles
<b>GDP</b>	Gross domestic product
<b>General Meeting</b>	General meeting of the Company, being the corporate body, or where the context so requires, the physical meeting of Shareholders
<b>GLC</b>	General Lighting Company, a Saudi Arabian luminaire manufacturer, in which the Group acquired 51% interest in 2014 to gain access to the lighting market in the Kingdom of Saudi Arabia
<b>Global Businesses</b>	Certain businesses managed by the group on a global basis rather than geographical market basis, including digital projection, licensing programs, entertainment, modular and Luceplan
<b>Group</b>	The Company and its Group Companies
<b>Group Companies</b>	The Company’s subsidiaries within the meaning of Section 2:24b DCC
<b>Growth Markets</b>	Six markets covering the following regional clusters: (i) ASEAN plus other Pacific (comprising ten countries, primarily Indonesia, Thailand and Australia); (ii) the Indian Subcontinent (India, Bangladesh and Sri Lanka); (iii) Middle East and Turkey; (iv) Africa (primarily South Africa, Morocco and Egypt); (v) Russia, Ukraine and Central Asia; and (vi) Japan
<b>HID</b>	High-intensity discharge
<b>HR</b>	Human resources
<b>IAEA</b>	International Atomic Energy Agency
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>IECC</b>	International Energy Construction Code
<b>IFRS</b>	The International Financial Reporting Standards as endorsed by the European Union and as issued by the IASB
<b>IG&amp;S</b>	The Philips Innovation, Group & Services Sector
<b>IMF</b>	International Monetary Fund

<b>Indal</b>	Industrias Derivadas del Aluminio. S.L.
<b>ING</b>	ING Bank N.V.
<b>Internal IT Services Period</b>	The period during which the Group is still under control of Royal Philips and during which Philips Electronics shall extend similar use and access rights of certain IT services to the Group pursuant to the IT TSLA as it grants to any other group member in the Royal Philips group
<b>Internal Revenue Code</b>	The Internal Revenue Code of 1986, as amended
<b>IP TLA</b>	Intellectual property transfer and license agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016
<b>IT</b>	Information technology
<b>IT Services Period</b>	A period of 12 months as of the date of the Separation, during which Philips Electronics shall provide certain IT services to the Group
<b>IT TSLA</b>	IT transitional services level agreement between Philips Electronics and Philips Lighting B.V., dated 1 February 2016
<b>Joint Bookrunners</b>	Citigroup, ING, Morgan Stanley and Société Générale in their capacity as joint bookrunners
<b>Joint Global Coordinators</b>	Goldman Sachs International and J.P. Morgan in their capacity as joint global coordinators
<b>J.P. Morgan</b>	J.P. Morgan Securities plc
<b>KPMG</b>	KPMG Accountants N.V.
<b>LED</b>	Light-emitting diode
<b>LFL</b>	Linear fluorescent lamps
<b>Listing and Paying Agent</b>	ING Bank N.V.
<b>Lumileds</b>	The combined LED and automotive lighting components business of Royal Philips
<b>Lumileds IT TSLA</b>	The IT TSLA between Philips Electronics and Lumileds Holding B.V. dated 1 April 2015
<b>Market Groups or MGs</b>	The following geographical market groups: Europe, Americas, Growth Markets and Greater China
<b>Morgan Stanley</b>	Morgan Stanley & Co. International plc
<b>OEM</b>	Original equipment manufacturers
<b>OLED</b>	Organic light-emitted diode
<b>Offer Price</b>	The offer price per Offer Share
<b>Offer Price Range</b>	The expected price range of €18.50 to €22.50 (inclusive) per Offer Share
<b>Offer Shares</b>	The Ordinary Shares that will be offered by the Selling Shareholder in the Offering which includes, unless the context indicates otherwise, the Over-Allotment Shares
<b>Offering</b>	The public offering of the Offer Shares to institutional and retail investors in the Netherlands and through private placements to certain institutional investors in various other jurisdictions
<b>Offering Period</b>	The period during which the Offering will take place, commencing on 9:00 CET on 16 May 2016 and ending at 12:00 CET on 26 May 2016 for prospective institutional investors and commencing on 9:00 CET on 16 May 2016 and ending at 17:30 CET on 25 May 2016 for prospective retail investors, subject to acceleration or extension of the timetable for the Offering
<b>Order</b>	The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended



<b>Ordinary Shares</b>	Ordinary shares in the Company's issued and outstanding share capital, with a nominal value of €0.01 per Ordinary Share
<b>Over-Allotment Option</b>	The option to be granted to the Stabilization Manager (on behalf of the Underwriters) exercisable within 30 calendar days after the Settlement Date, pursuant to which the Stabilization Manager (on behalf of the Underwriters) may require the Selling Shareholder to sell additional Shares at the Offer Price
<b>Over-Allotment Shares</b>	The Ordinary Shares that may be made available pursuant to the Over-Allotment Option
<b>PFIC</b>	A passive foreign investment company
<b>Philips Electronics</b>	Philips Electronics Nederland B.V.
<b>Preference Shares</b>	Preference shares in the Company's authorized share capital, with a nominal value of €0.01 per Preference Share
<b>Preferential Retail Allocation</b>	The preferential allocation of Offer Shares to Dutch Retail Investors
<b>Pricing Statement</b>	The pricing statement detailing the Offer Price, the exact number of Offer Shares to be sold and the maximum number of Over-Allotment Shares, which will be filed with the AFM
<b>Prospectus</b>	This prospectus dated 16 May 2016
<b>Prospectus Directive</b>	Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU
<b>Protective Foundation Reserve</b>	Reserve of the Company formed so that Preference Shares can be paid-up at the expense of such reserve
<b>QIBs</b>	Qualified institutional buyers as defined in Rule 144A
<b>R&amp;D</b>	Research and development
<b>Rabobank</b>	Coöperatieve Rabobank U.A.
<b>REACH Regulation</b>	Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals
<b>Regulation S</b>	Regulation S under the U.S. Securities Act
<b>Relationship Agreement</b>	The agreement between the Company and the Selling Shareholder to be entered into on or before the Settlement Date governing the relationship between the Company and the Selling Shareholder
<b>Relevant Member State</b>	Each member state of the EEA which has implemented the Prospectus Directive
<b>Relevant Person</b>	A relevant person within the meaning of the Order
<b>Retail Coordinator</b>	ING
<b>Reverse IT TSLA</b>	Reverse IT TSLA between Philips Electronics and Philips Lighting B.V., dated 1 February 2016
<b>Revolving Credit Facility</b>	The Group's revolving credit facility in a maximum amount of €500 million
<b>RoHS Directive</b>	Directive 2002/95/EC of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances in electrical and electronic equipment
<b>RoHS II-Directive</b>	Directive 2011/65/EU of 8 June 2011 (the revised RoHS Directive)
<b>Rothschild</b>	N.M. Rothschild & Sons Limited
<b>Royal Philips</b>	The Selling Shareholder together with its subsidiaries within the meaning of Section 2:24b DCC

<b>Royal Philips Nominee(s)</b>	A member of the Supervisory Board nominated by the Selling Shareholder
<b>Rule 144A</b>	Rule 144A under the U.S. Securities Act
<b>Selling Shareholder</b>	Koninklijke Philips N.V.
<b>Separation</b>	The separation of the Group from Royal Philips
<b>Separation Agreement</b>	The agreement between Philips Lighting Holding B.V. and the Selling Shareholder dated 1 February 2016 relating to the Separation.
<b>Separation Date</b>	The date on which the Separation occurred, being 1 February 2016
<b>Settlement</b>	Payment (in euro) for and delivery of the Offer Shares
<b>Settlement Date</b>	The date on which Settlement occurs which is expected to be on or about 31 May 2016, subject to acceleration or extension of the timetable for the Offering
<b>Shareholder(s)</b>	A holder of Shares
<b>Shares</b>	Ordinary Shares and Preference Shares
<b>Société Générale</b>	Société Générale Corporate & Investment Banking
<b>Stabilization Manager</b>	Goldman Sachs International
<b>Stock Lending Agreement</b>	The stock lending agreement expected to be dated 26 May 2016 between the Selling Shareholder and the Stabilization Manager
<b>Supervisory Board</b>	The supervisory board ( <i>raad van commissarissen</i> ) of the Company
<b>Supervisory Board Rules</b>	The rules regarding the Supervisory Board's functioning and internal organization
<b>Term Loan Facility</b>	The Group's term loan facility in an amount of approximately €1,200 million equivalent
<b>The Netherlands</b>	The part of the Kingdom of the Netherlands located in Europe
<b>TL</b>	Tubular linear lamps
<b>TMLA</b>	Trademark license agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016
<b>Treaty</b>	1992 Double Taxation Treaty between the United States and the Netherlands, as amended most recently by the Protocol signed 8 March 2004
<b>TSA</b>	Transitional services agreement between the Selling Shareholder and Philips Lighting Holding B.V., dated 1 February 2016
<b>TSLAs</b>	Transitional services agreement and various underlying transitional service level agreements
<b>Underwriters</b>	Each of the Joint Global Coordinators, the Joint Bookrunners and the Co-Bookrunners
<b>Underwriting Agreement</b>	The underwriting agreement expected to be entered into on or about 26 May 2016 between the Company, the Selling Shareholder and the Underwriters
<b>U.S. or United States</b>	United States of America
<b>U.S. dollars or USD or \$</b>	The U.S. Dollar, the lawful currency in the United States
<b>U.S. Exchange Act</b>	United States Securities Exchange Act of 1934, as amended
<b>U.S. Securities Act</b>	United States Securities Act of 1933, as amended
<b>U.S. Shareholder</b>	A Shareholder who is considered to be resident in the United States
<b>WEEE Directive</b>	Directive (2012/19/EU) on waste of electrical and electronic equipment

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# 1. CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS OF PHILIPS LIGHTING

## A. CONDENSED COMBINED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated

	January to March	
	2015	2016
	unaudited	unaudited
Sales	1,727	1,702
Cost of sales	(1,106)	(1,075)
<b>Gross margin</b>	<b>621</b>	<b>627</b>
Selling expenses	(430)	(430)
Research and development expenses	(88)	(90)
General and administrative expenses	(50)	(49)
4,7 Impairment of goodwill	—	(2)
Other business income	2	18
Other business expenses	—	(3)
<b>Income from operations</b>	<b>55</b>	<b>71</b>
Financial income	—	4
Financial expenses	(2)	(21)
<b>Income before taxes</b>	<b>53</b>	<b>54</b>
5 Income tax expense	(23)	(40)
<b>Income after taxes</b>	<b>30</b>	<b>14</b>
Results relating to investments in associates	—	—
<b>Net income (loss)</b>	<b>30</b>	<b>14</b>
<b>Attribution of net income (loss):</b>		
Net income (loss) attributable to owners of Philips Lighting	27	15
Net income (loss) attributable to non-controlling interests	3	(1)

## B. CONDENSED COMBINED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated

	January to March	
	2015	2016
	Unaudited	Unaudited
<b>Net income (loss) for the period</b>	<b>30</b>	<b>14</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	40	(81)
Income tax effect	<u>—</u>	<u>—</u>
Total currency translation differences:	40	(81)
Cash flow hedges:		
Net current period change, before tax	(1)	(4)
Income tax effect	<u>—</u>	<u>1</u>
Total cash flow hedges:	<u>(1)</u>	<u>(3)</u>
<b>Other comprehensive (loss) income for the period</b>	<b><u>39</u></b>	<b><u>(84)</u></b>
<b>Total comprehensive income (loss) for the period</b>	<b>69</b>	<b>(70)</b>
<b>Total comprehensive income attributable to:</b>		
Owners of Philips Lighting	57	(65)
Non-controlling interests	<u>12</u>	<u>(5)</u>



## C. CONDENSED COMBINED BALANCE SHEETS

in millions of EUR unless otherwise stated

	<u>31 December 2015</u>	<u>31 March 2016 unaudited</u>
<b>Non-current assets</b>		
6 Property, plant and equipment		
- At cost	2,620	2,634
- Less accumulated depreciation	<u>(1,986)</u>	<u>(2,031)</u>
	634	603
7 Goodwill	1,844	1,781
8 Intangible assets, excluding goodwill		
- At cost	2,192	2,196
- Less accumulated amortization	<u>(1,336)</u>	<u>(1,391)</u>
	856	805
Non-current receivables	20	16
Investments in associates	23	23
17 Other non-current financial assets	8	58
5 Deferred tax assets	259	409
Other non-current assets	<u>15</u>	<u>19</u>
<b>Total non-current assets</b>	<b>3,659</b>	<b>3,714</b>
<b>Current assets</b>		
9 Inventories	988	1,010
Other current assets	46	48
16 Derivative financial assets	9	10
Income tax receivable	25	30
Receivables		
- Accounts receivable	1,436	1,344
17 - Accounts receivable from related parties—Philips Group	83	65
- Other current receivables	<u>80</u>	<u>103</u>
	1,599	1,512
10 Assets classified as held for sale	34	52
17 Short-term loans receivable from Philips Group	—	207
Cash and cash equivalents	<u>83</u>	<u>353</u>
<b>Total current assets</b>	<b>2,784</b>	<b>3,222</b>
<b>Total assets</b>	<b>6,443</b>	<b>6,936</b>
<b>Equity</b>		
Owner's net investment	3,513	3,011
Non-controlling interest	<u>103</u>	<u>110</u>
11 <b>Business equity</b>	<b>3,616</b>	<b>3,121</b>
<b>Non-current liabilities</b>		
Long-term debt	2	18
12 Long-term provisions	350	678
5 Deferred tax liabilities	126	38
Other non-current liabilities	<u>159</u>	<u>320</u>
<b>Total non-current liabilities</b>	<b>637</b>	<b>1,054</b>
<b>Current liabilities</b>		
Short-term debt	86	95
17 Short-term loans payable to Philips Group	—	645
16 Derivative financial liabilities	7	13
Income tax payable	6	23
Account and notes payable:		
- Trade creditors	940	765
17 - Accounts payable to related parties—Philips Group	<u>111</u>	<u>147</u>
	1,051	912
Accrued liabilities	459	404
12 Short-term provisions	263	266
10 Liabilities associated with assets classified held for sale	6	10
Other current liabilities	<u>312</u>	<u>393</u>
<b>Total current liabilities</b>	<b>2,190</b>	<b>2,761</b>
<b>Total liabilities and business equity</b>	<b>6,443</b>	<b>6,936</b>

## D. CONDENSED COMBINED STATEMENTS OF CASH FLOWS

In millions of EUR unless otherwise stated

		<b>January to March</b>	
		<b>2015</b>	<b>2016</b>
		<b>unaudited</b>	<b>unaudited</b>
<b>Cash flows from operating activities</b>			
	Net income (loss)	30	14
	Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
4	Depreciation, amortization and impairments of non-financial assets	73	78
	Impairment of non-current financial assets	—	3
	Net gain on sale of assets	—	(1)
	Interest income	—	(4)
	Interest expense on debt, borrowings and other liabilities	2	18
5	Income tax expense	23	40
15	Share-based compensation	7	6
	Decrease (increase) in working capital	79	(102)
	Decrease (increase) in receivables and other current assets	28	28
9	Decrease (increase) in inventories	(65)	(47)
	Increase (decrease) in accounts payable, accrued and other current liabilities	116	(83)
	Increase (decrease) in non-current receivables, other assets and other liabilities	2	(63)
12	Increase (decrease) in provisions	(23)	(31)
	Interest paid	(2)	(1)
	Income taxes paid	(7)	(17)
	<b>Net cash provided by operating activities</b>	<b>184</b>	<b>(60)</b>
<b>Cash flows from investing activities</b>			
	Net capital expenditures	(28)	(18)
8	Additions of intangible assets	(8)	(4)
6	Capital expenditures on property, plant and equipment	(20)	(16)
6	Proceeds from disposal of property, plant and equipment	—	2
	Proceeds from other non-current financial assets	17	—
	Purchase of businesses, net of cash acquired	(3)	—
	<b>Net cash used for investing activities</b>	<b>(14)</b>	<b>(18)</b>
<b>Cash flows from financing activities</b>			
	Funding by (distribution to) Philips Group	(149)	(349)
	Capital contribution from Philips Group	—	692
	Proceeds from issuance (payments) of debt	(24)	3
	<b>Net cash (used for) provided by financing activities</b>	<b>(173)</b>	<b>346</b>
	<b>Net cash (used for) provided by continuing operations</b>	<b>(3)</b>	<b>268</b>
	Effect of changes in exchange rates on cash and cash equivalents	(9)	2
	Cash and cash equivalents at the beginning of the period	75	83
	<b>Cash and cash equivalents at the end of the period</b>	<b>63</b>	<b>353</b>

## E. CONDENSED COMBINED STATEMENTS OF CHANGES IN BUSINESS EQUITY

### COMBINED STATEMENTS OF CHANGES IN BUSINESS EQUITY

in millions of EUR unless otherwise stated

	<u>Currency translation differences</u>	<u>Cash flow hedges</u>	<u>Result for the period</u>	<u>Funding by Royal Philips</u>	<u>Owner's net investment</u>	<u>Non-controlling interests</u>	<u>Business equity</u>
<b>January to March 2015 unaudited</b>							
<b>Balance 1 January</b>	<b>78</b>	<b>(1)</b>	<b>(22)</b>	<b>3,440</b>	<b>3,495</b>	<b>88</b>	<b>3,583</b>
Currency translation adjustment	31	—	—	—	31	9	40
Movement in hedging reserve	—	(1)	—	—	(1)	—	(1)
Other comprehensive income	31	(1)	—	—	30	9	39
Result for the period	—	—	27	—	27	3	30
Total comprehensive income	31	(1)	27	—	57	12	69
Movement in funding	—	—	—	113	113	—	113
Transfer of previous year's result	—	—	22	(22)	—	—	—
<b>Balance 31 March</b>	<b>109</b>	<b>(2)</b>	<b>27</b>	<b>3,531</b>	<b>3,665</b>	<b>100</b>	<b>3,765</b>
<b>January to March 2016 unaudited</b>							
<b>Balance 1 January</b>	<b>127</b>	<b>2</b>	<b>226</b>	<b>3,158</b>	<b>3,513</b>	<b>103</b>	<b>3,616</b>
Currency translation adjustment	(77)	—	—	—	(77)	(4)	(81)
Movement in hedging reserve	—	(3)	—	—	(3)	—	(3)
Other comprehensive income	(77)	(3)	—	—	(80)	(4)	(84)
Result for the period	—	—	15	—	15	(1)	14
Total comprehensive income	(77)	(3)	15	—	(65)	(5)	(70)
Capital contribution	—	—	—	692	692	—	692
Transfer settlements above book value, net of tax	—	—	—	(584)	(584)	—	(584)
Movement in funding	—	—	—	(545)	(545)	12	(533)
Transfer of previous year's result	—	—	(226)	226	—	—	—
<b>Balance 31 March</b>	<b>50</b>	<b>(1)</b>	<b>15</b>	<b>2,947</b>	<b>3,011</b>	<b>110</b>	<b>3,121</b>

## **2. NOTES TO THE CONDENSED COMBINED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016**

All amounts in millions of EUR unless otherwise stated

### **A. Introduction**

The accompanying Financial Statements of Philips Lighting, comprising the former Lighting sector of Koninklijke Philips N.V (“Royal Philips”) and the lighting-related activities of Philips Innovation, Group & Services sector (“IG&S”) present the financial position, results of operations and cash flows of Philips Lighting for the three months ended 31 March 2016 on a combined basis (the “Condensed Combined Interim Financial Statements”).

As used herein, the term ‘Philips or Philips Group’ is used for Royal Philips or, as the context requires, for Royal Philips and its group companies excluding Philips Lighting.

The Condensed Combined Interim Financial Statements have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union.

The Condensed Combined Interim Financial Statements are unaudited and do not contain all the information and disclosures included in the annual financial statements, and should be read in conjunction with the Philips Lighting Combined Financial Statements for the year ended 31 December 2015.

All amounts are in millions of euros unless otherwise stated. All reported data is unaudited. Financial reporting is in accordance with the accounting policies as stated in the Philips Lighting Combined Financial Statements for the year ended 31 December 2015.

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

Transactions and balances previously reported as part of the continuing operations of the former Lighting sector of Royal Philips have been directly attributed to Philips Lighting. However, transactions and balances previously reported as part of Philips IG&S 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.

The preparation of the Condensed Combined 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 Combined 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 Philips Lighting Combined Financial Statements for the year ended 31 December 2015.

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

On 1 February 2016, Royal Philips and Philips Lighting entered into a master Separation agreement and a set of ancillary agreements, together effectuating the Separation of their respective business and providing a framework for the relationship between Royal Philips and Philips Lighting thereafter (the “Separation”).

The Separation agreement allocates assets, liabilities, employees and contracts of the former Royal Philips between the new Royal Philips and the 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 legal separation of the lighting business was substantially completed by 31 March 2016, with the exception of certain delayed transfers. As per the master separation agreement, the transfer of the US business is to be executed prior to the completion of a sale or listing of Philips Lighting. The finalization and settlement of certain subsidiary share and asset transfer values after March 31, 2016 will be effected as an equity transaction with the owner Royal Philips.

Philips Lighting uses the Philips brand name. As part of the Separation a brand license fee agreement was signed between Philips Lighting and Philips Group.

## C. DISCLOSURE NOTES

### 1. Information by segment and main country

Starting in 2016, Philips revised its approach of allocating overhead costs to its businesses. The following table presents the results by segment for the comparative periods consistent with the revised approach.

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

**Information on income statement by segment** in millions of EUR unless otherwise stated  
January to March 2015—2016

	<u>Sales</u>	<u>Sales including intersegment</u>	<u>Income (loss) from operations</u>	<u>Income (loss) from operations as a % of sales</u>
<b>2016</b>				
BG Lamps	615	623	113	18%
BG LED	355	386	19	5%
BG Professional	601	609	(25)	(4%)
BG Home	124	124	(15)	(12%)
Others	7	7	(21)	— <sup>1</sup>
Intersegment elimination		(47)		
<b>Philips Lighting</b>	<b>1,702</b>	<b>1,702</b>	<b>71</b>	<b>4%</b>
<b>2015</b>				
BG Lamps	727	741	106	14%
BG LED	275	295	2	1%
BG Professional	610	614	(19)	(3%)
BG Home	112	113	(19)	(17%)
Others	3	3	(15)	— <sup>1</sup>
Intersegment elimination		(39)		
<b>Philips Lighting</b>	<b>1,727</b>	<b>1,727</b>	<b>55</b>	<b>3%</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 March

	<u>2015</u>	<u>2016</u>
Netherlands	94	106
United States	403	443
Germany	119	111
China	111	109
India	97	101
Saudi Arabia	65	45
Other countries	838	787
<b>Total sales</b>	<b>1,727</b>	<b>1,702</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 31 March

	<u>Total assets 31 March</u>	<u>Total liabilities excl. Debt 31 March</u>	<u>Depreciation and amortization Jan - March</u>
<b>2016</b>			
BG Lamps	1,145	(829)	(23)
BG LED	561	(316)	(5)
BG Professional	3,504	(647)	(38)
BG Home	343	(168)	(3)
Others	<u>1,124</u>	<u>(1,087)</u>	<u>(9)</u>
<b>Philips Lighting subtotal</b>	<b>6,677</b>	<b>(3,047)</b>	<b>(78)</b>
Assets classified as held for sale	<u>52</u>	<u>(10)</u>	
<b>Total assets/liabilities (excl. debt)</b>	<b>6,729</b>	<b>(3,057)</b>	
	<u>Total assets 31 Dec</u>	<u>Total liabilities excl. Debt 31 Dec</u>	<u>Depreciation and amortization Jan - March</u>
<b>2015</b>			
BG Lamps	1,196	(844)	(20)
BG LED	589	(315)	(4)
BG Professional	3,624	(627)	(36)
BG Home	373	(180)	(3)
Others	<u>627</u>	<u>(767)</u>	<u>(10)</u>
<b>Philips Lighting subtotal</b>	<b>6,409</b>	<b>(2,733)</b>	<b>(73)</b>
Assets classified as held for sale	<u>34</u>	<u>(6)</u>	
<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 31 March

	<u>2015</u>	<u>2016</u>
Netherlands	141	133
United States	2,159	2,058
Germany	8	13
China	116	101
India	29	28
Saudi Arabia	248	223
Other countries	<u>633</u>	<u>633</u>
<b>Tangible and intangible assets</b>	<b>3,334</b>	<b>3,189</b>

<sup>1</sup> Including goodwill

## 2. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the Combined Financial Statements for the year ended 31 December 2015 (note E 30).

## 3. Seasonality

Under normal economic conditions sales in the Lighting business are generally not materially affected by seasonality.

#### 4. Depreciation, amortization and impairments

Depreciation of property, plant and equipment, amortization of intangible assets and impairments of non-financial assets, are as follows:

<b>Depreciation, amortization and impairments</b> in millions of EUR unless otherwise stated		
January to March		
	<u>2015</u>	<u>2016</u>
Depreciation of property, plant and equipment	(39)	(31)
Amortization of acquired intangible assets <sup>1</sup>	(26)	(27)
Amortization of non-acquired intangible assets <sup>2</sup>	(8)	(7)
<b>Depreciation and amortization</b>	<b>(73)</b>	<b>(65)</b>
Impairment of property, plant and equipment	—	(10)
Impairment of acquired intangible assets <sup>1</sup>	—	—
Impairment of non-acquired intangible assets <sup>2</sup>	—	(1)
Impairment of goodwill	—	(2)
<b>Impairments</b>	<b>—</b>	<b>(13)</b>
<b>Total</b>	<b>(73)</b>	<b>(78)</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 goodwill of EUR 2 million in the three months ended 31 March 2016 relates to goodwill allocated to (anticipated) divestments of certain operations which met the IFRS 5 criteria of assets held for sale.

#### 5. Income taxes

Income tax expense increased by EUR 17 million compared to Q1 2015, mainly due to non-recurring tax charges related to the Separation directly attributable to Philips Lighting.

Deferred tax assets increased by EUR 150 million and deferred tax liabilities decreased by EUR 88 million during the three months ended 31 March 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 13).

As of 31 March 2016, the deferred tax asset arising from the transferred pension liabilities amounts to EUR 101 million.

#### 6. Property, plant and equipment

Property, plant and equipment decreased by EUR 31 million during the three months ended 31 March 2016, mainly due to additions of EUR 20 million (three months ended 31 March 2015: EUR 17 million) being more than offset by depreciation of EUR 31 million (three months ended 31 March 2015: EUR 39 million) and impairment charges of EUR 10 million (three months ended 31 March 2015: EUR nil million).

Impairment charges for the three months ended 31 March 2016 are primarily attributable to write-downs of specific assets due to restructuring programs related to manufacturing footprint rationalization.

#### 7. Goodwill

For information regarding the most recent impairment test of the different cash-generating units, including BG Professional and BG Home, reference is made to Note E 12 Goodwill in the 2015 Combined Financial Statements. No events have been identified by management in the first quarter of 2016 that required management to perform an update of the mentioned impairment tests.

## 8. Intangible assets excluding goodwill

The changes in intangible assets excluding goodwill in the first quarter of 2016 are summarized as follows:

<b>Intangible assets excluding goodwill</b> in millions of EUR unless otherwise stated	
<b>Balance 1 January 2016</b>	<b><u>856</u></b>
<i>Change in book value:</i>	
Additions	4
Amortization	(34)
Impairment	(1)
Translation differences	<u>(20)</u>
<b>Total changes</b>	<b><u>(51)</u></b>
<b>Balance 31 March 2016</b>	<b><u>805</u></b>

The movement of the EUR 20 million translation differences is mainly due to the decrease in the USD/EUR rate, which impacted the translation of intangible assets denominated in USD.

<b>Intangible assets excluding goodwill</b> in millions of EUR unless otherwise stated	
<b>Balance 1 January 2015</b>	<b><u>906</u></b>
<i>Change in book value:</i>	
Additions	37
Purchase price allocation adjustment	(10)
Amortization	(142)
Impairment	(4)
Translation differences	<u>69</u>
<b>Total changes</b>	<b><u>(50)</u></b>
<b>Balance 31 December 2015</b>	<b><u>856</u></b>

## 9. Inventories

<b>Inventories</b> in millions of EUR unless otherwise stated	<b><u>31-12-2015</u></b>	<b><u>31-03-2016</u></b>
Raw materials	294	314
Work in progress	27	26
Finished goods	<u>667</u>	<u>670</u>
<b>Total</b>	<b><u>988</u></b>	<b><u>1,010</u></b>

The write down of inventories to realizable value amounted to EUR nil million for the three months ended 31 March 2016 (2015: EUR 2 million).

## 10. Assets classified as held for sale

<b>Assets classified as held for sale</b> in millions of EUR unless otherwise stated	<b><u>31-12-2015</u></b>	<b><u>31-03-2016</u></b>
Assets classified as held for sale	34	52
Liabilities directly associated with assets held for sale	<u>6</u>	<u>10</u>

Assets classified as held for sale mainly relate to 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 trade creditors.

## 11. Owner's net investment

As part of the Separation, Philips Group has made cash injections to Philips Lighting of EUR 692 million, which are reflected as capital contributions in the three months ended 31 March 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 Philips Group of EUR 584 million during the three months ended 31 March 2016, as a transaction under common control. The finalization and settlement of certain subsidiary share and asset transfer values after March 31, 2016 will be effected as an equity transaction with the owner Royal Philips.

## 12. Provisions

Provisions are summarized as follows:

<b>Provisions</b> in millions of EUR unless otherwise stated	<u>31-12-2015</u>	<u>31-03-2016</u>
Provisions for pension plans	43	307
Provision for other post-retirement benefits	—	110
Restructuring related provisions	178	142
Environmental provisions	163	158
Product warranty	60	58
Onerous contract provision	31	31
Other long-term employee benefit provisions	25	25
Other provisions	<u>113</u>	<u>113</u>
<b>Total</b>	<b><u>613</u></b>	<b><u>944</u></b>
<b>Of which:</b>		
Short-term provisions	263	266
Long-term provisions	<u>350</u>	<u>678</u>
<b>Total</b>	<b><u>613</u></b>	<b><u>944</u></b>

The change in provisions was mainly attributable to:

- the increase in provision for defined benefits, which resulted from the transfer of pension liabilities to Philips Lighting as part of the Separation (refer to note 13 post-employee benefits), and
- partly offset by the decrease in restructuring related provisions, which was mainly due to usage.

## 13. Post-employment benefits

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

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

<b>Post-employment benefits</b> in millions of EUR unless otherwise stated	<u>Obligation</u>	<u>Plan assets</u>	<u>Net liability</u>
<b>Opening balance 1 January 2015</b>	<b>(40)</b>	<b>—</b>	<b>(40)</b>
Acquisitions	—	—	—
Miscellaneous	(3)	—	(3)
<b>Balance as of 31 December 2015</b>	<b><u>(43)</u></b>	<b><u>—</u></b>	<b><u>(43)</u></b>
Transfer from Philips	(1,153)	546	(607)
Reclassifications	1	1	2
Service costs	(2)	—	(2)
Interest	(12)	6	(6)
Contribution by employer	—	45	45
Benefits paid	23	(13)	10
Plan amendments (incl curtailments)	4	—	4
Translation differences	22	(12)	10
Total changes	<u>(1,117)</u>	<u>573</u>	<u>(544)</u>
<b>Balance 31 March 2016</b>	<b><u>(1,160)</u></b>	<b><u>573</u></b>	<b><u>(587)</u></b>

Unrecognized assets of EUR 19 million were transferred as part of the transfer from Philips and were EUR 20 million as of 31 March 2016.

No actuarial gains and losses were recorded in the three months ended 31 March 2016. The calculation is based on a roll forward using the assumptions and actuarial calculations per 31 December 2015.

The net pension liability is presented as follows:

<b>Net pension liability</b> in millions of EUR unless otherwise stated	<u>31-12-2015</u>	<u>31-03-2016</u>
Accrued pension costs <sup>1</sup>	—	(170)
Provision for defined benefits (see note 12)	(43)	(307)
Provision for other post-employment benefits (see note 12)	—	(110)
<b>Total</b>	<u>(43)</u>	<u>(587)</u>

<sup>1</sup> Accrued pension costs are mainly presented under Other non-current liabilities

#### **14. 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 31 March 2016 the total fair value of guarantees recognized on the Condensed Combined Interim Balance Sheet amounted to EUR nil million (31 December 2015: EUR nil million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates as per 31 March 2016 amounted to EUR 7 million (31 December 2015: EUR 8 million).

As part of the Separation, Philips Lighting has provided indemnities to Royal Philips based on contingent events, including back-up guarantees for certain pension and rent payments.

##### *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 17, 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 certain chemicals on the environment.

##### *Legal proceedings*

Philips Lighting is involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution. While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, Philips Lighting is of the opinion that the proceedings may have a significant impact on Philips Lighting's Condensed Combined Balance Sheet, results of operations and combined cash flows.

For information regarding legal proceedings in which the Company is involved, please refer to note E. 26 in the 2015 Combined Financial Statements.

#### **15. Share-based compensation**

Share-based compensation costs for Philips Lighting were EUR 7 million and EUR 6 million in the first quarter of 2015 and 2016 respectively. These costs relate to the share-based compensation plan of Royal Philips.



### *Performance and restricted shares granted*

During the first three months of 2016 the Company granted 6,195 performance shares and 26,226 restricted shares.

### *Restricted shares issued and options exercised*

In the first three months of 2016 a total of 14,838 restricted shares were issued to employees, furthermore 144,423 EUR-denominated options and 22,087 USD-denominated options were exercised at a weighted average exercise price of EUR 17.02 and USD 18.60 respectively.

### *Accelerate! options exercised*

Under the Accelerate! Program, in the first three months of 2016 a total of 11,540 EUR-denominated options and 5,600 USD-denominated options were exercised at an exercise price of EUR 15.24 and USD 20.02 respectively.

## **16. 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-term 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

	<u>Balance as of 31 December 2015</u>		<u>Balance as of 31 March 2016</u>	
	<u>carrying amount</u>	<u>estimated fair value</u>	<u>carrying amount</u>	<u>estimated fair value</u>
<b>Financial assets</b>				
<b>Carried at fair value:</b>				
Derivative financial instruments	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>
<b>Financial assets carried at fair value</b>	<b>9</b>		<b>10</b>	
<b>Carried at (amortized) cost:</b>				
Cash and cash equivalents	83		353	
Loans and receivables:				
Loans—current	—		2	2
Other non-current loans and receivables	3	3	52	52
Receivables—current	1,599		1,512	
Receivables—non-current	20	20	16	16
Short-term loans receivables from Philips Group	—		207	
Held-to-maturity investments	—		1	
Available-for-sale financial assets	<u>5</u>	<u>5</u>	<u>3</u>	<u>3</u>
<b>Financial assets carried at (amortized) costs</b>	<b>1,710</b>		<b>2,146</b>	
<b>Financial liabilities</b>				
<b>Carried at fair value:</b>				
Derivative financial instruments	<u>(7)</u>	<u>(7)</u>	<u>(13)</u>	<u>(13)</u>
<b>Financial liabilities carried at fair value</b>	<b>(7)</b>		<b>(13)</b>	
<b>Carried at (amortized) cost:</b>				
Accounts payable	(1,051)		(912)	
Short-term loans payable to Philips Group	—		(645)	
Accrued interest	(1)		(1)	
Debt	<u>(88)</u>		<u>(113)</u>	
<b>Financial liabilities carried at (amortized) costs</b>	<b>(1,140)</b>		<b>(1,671)</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

	<u>level 1</u>	<u>level 2</u>	<u>level 3</u>	<u>total</u>
<b>Balance 31 March 2016</b>				
Derivative financial instruments—assets	—	10	—	10
Loans—current	—	2	—	2
Other non-current loans and receivables	—	52	—	52
Receivables—non-current	—	16	—	16
Available-for-sale financial assets	—	3	—	3
<b>Total financial assets</b>	<u>—</u>	<u>83</u>	<u>—</u>	<u>83</u>
Derivative financial instruments—liabilities	—	(13)	—	(13)
<b>Total financial liabilities</b>	<u>—</u>	<u>(13)</u>	<u>—</u>	<u>(13)</u>
<b>Balance 31 December 2015</b>				
Derivative financial instruments—assets	—	9	—	9
Loans—current	—	—	—	—
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>	<u>—</u>	<u>37</u>	<u>—</u>	<u>37</u>
Derivative financial instruments—liabilities	—	(7)	—	(7)
<b>Total financial liabilities</b>	<u>—</u>	<u>(7)</u>	<u>—</u>	<u>(7)</u>

## 17. Related party transactions

In the normal course of business, Philips Lighting purchases and sells goods and services from/to various parties in which Philips 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 Combined Interim Financial Statements include transactions with Royal Philips and its group companies that are outside of Philips Lighting. Philips Group 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—March

	<u>2015</u>	<u>2016</u>
Sales to Philips Group	10	11
Sales to associates	8	2
Purchases from Philips Group	(20)	(19)
Purchases from associates	(5)	(5)
Movement funding from/ (to) Philips Group	113	(545)
Capital contribution	—	692
Transfer settlement transactions as part of separation	—	(584)
Transfer of pension obligations as part of separation	—	(607)
Transition Service Level Agreement costs charged by Philips	—	34

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

	<u>31-12-2015</u>	<u>31-03-2016</u>
Accounts receivable—Philips Group	83	65
Accounts payable—Philips Group	(111)	(147)
Long term Loan receivable from Philips Group	—	36
Indemnification receivable from Philips Group	—	10
Indemnification payable to Philips Group	—	(95)
Funding from Philips Group (through owners net investment)	(3,158)	(2,947)
Short-term loans receivable from Philips Group	—	207
Short-term loans payable to Philips Group	—	(645)

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

**18. Subsequent events**

Philips Lighting expects to incur restructuring and acquisition-related charges of approximately EUR 60 million for the three-month period ending 30 June 2016, of which approximately one-third relates to restructuring plans which were announced by Philips Lighting as per the date of the issuance of the Condensed Combined Interim Financial Statements.

To: management of Philips Lighting

## **Review report**

### *Introduction*

We have reviewed the accompanying condensed combined interim financial statements of Philips Lighting, which comprise the condensed combined balance sheet as at 31 March 2016, the condensed combined statements of income, comprehensive income, changes in business equity, and cash flows for the three month period then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information.

Management of Philips Lighting is responsible for the preparation and presentation of this condensed combined interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed combined interim financial statements based on our review.

### *Scope*

We conducted our review in accordance with Dutch law including standard 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Dutch auditing standards and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed combined interim financial statements of Philips Lighting for the three month period ended 31 March 2016 are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 11 May 2016

Ernst & Young Accountants LLP

Signed by O.E.D. Jonker

## 1. COMBINED FINANCIAL STATEMENTS OF PHILIPS LIGHTING

### A. COMBINED STATEMENTS OF INCOME

in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
4, 28 Sales	7,129	6,981	7,465
Cost of sales	(4,573)	(4,671)	(4,810)
<b>Gross margin</b>	<b>2,556</b>	<b>2,310</b>	<b>2,655</b>
Selling expenses	(1,722)	(1,657)	(1,751)
Research and development expenses	(375)	(395)	(366)
General and administrative expenses	(233)	(223)	(233)
7, 12 Impairment of goodwill	(26)	(2)	—
Other business income	31	13	48
Other business expenses	(18)	(5)	(22)
<b>4 Income from operations</b>	<b>213</b>	<b>41</b>	<b>331</b>
9 Financial income	3	3	3
9 Financial expenses	(4)	(9)	(11)
<b>Income before taxes</b>	<b>212</b>	<b>35</b>	<b>323</b>
8 Income tax expense	(45)	(66)	(83)
<b>Income after taxes</b>	<b>167</b>	<b>(31)</b>	<b>240</b>
3 Results relating to investments in associates	1	2	—
<b>Net income (loss)</b>	<b>168</b>	<b>(29)</b>	<b>240</b>
<b>Attribution of net income (loss):</b>			
Net income (loss) attributable to owners of Philips Lighting	168	(22)	226
Net income (loss) attributable to non-controlling interests	—	(7)	14

### B. COMBINED STATEMENTS OF COMPREHENSIVE INCOME

in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Net income (loss) for the period</b>	<b>168</b>	<b>(29)</b>	<b>240</b>
23 Currency translation differences:			
Net current period change, before tax	(94)	179	58
Income tax effect	—	—	—
23 Total currency translation differences:	(94)	179	58
Cash flow hedges:			
Net current period change, before tax	(3)	2	4
Income tax effect	1	(1)	(1)
Total cash flow hedges:	(2)	1	3
<b>Other comprehensive (loss) income for the period</b>	<b>(96)</b>	<b>180</b>	<b>61</b>
<b>Total comprehensive income for the period</b>	<b>72</b>	<b>151</b>	<b>301</b>
<b>Total comprehensive income attributable to:</b>			
Owners of Philips Lighting	72	151	278
Non-controlling interests	—	—	23

The accompanying notes are an integral part of these Combined Financial Statements.



## C. COMBINED BALANCE SHEETS

in millions of EUR unless otherwise stated

	01-01-2013	31-12-2013	31-12-2014	31-12-2015
<b>Non-current assets</b>				
11	Property, plant and equipment			
	- At cost	2,892	2,767	2,840
	- Less accumulated depreciation	(1,985)	(1,937)	(2,118)
		907	830	722
12	Goodwill	1,564	1,458	1,676
13	Intangible assets, excluding goodwill			634
	- At cost	1,900	1,799	2,120
	- Less accumulated amortization	(952)	(1,027)	(1,214)
		948	772	906
	Non-current receivables	8	8	10
3	Investments in associates	28	27	24
	Other non-current financial assets	21	22	23
8	Deferred tax assets	185	212	241
	Other non-current assets	10	4	4
	<b>Total non-current assets</b>	<b>3,671</b>	<b>3,333</b>	<b>3,606</b>
	<b>Current assets</b>			
15	Inventories	954	983	996
16	Other current assets	51	52	65
31	Derivative financial assets	21	20	17
	Income tax receivable	9	7	8
14, 28	Receivables:			
	- Accounts receivable	1,185	1,289	1,455
	- Accounts receivable from related parties—Philips Group	2	13	3
	- Other current receivables	55	69	87
		1,242	1,371	1,545
10	Assets classified as held for sale	—	15	20
17	Cash and cash equivalents	58	49	75
	<b>Total current assets</b>	<b>2,335</b>	<b>2,497</b>	<b>2,726</b>
	<b>Total assets</b>	<b>6,006</b>	<b>5,830</b>	<b>6,332</b>
	<b>Equity</b>			
23	Owner's net investment	3,288	3,297	3,495
	Non-controlling interest	1	2	88
	<b>Business equity</b>	<b>3,289</b>	<b>3,299</b>	<b>3,583</b>
	<b>Non-current liabilities</b>			
22	Long-term debt	5	6	41
18	Long-term provisions	469	348	461
8	Deferred tax liabilities	155	132	150
21	Other non-current liabilities	140	145	158
	<b>Total non-current liabilities</b>	<b>769</b>	<b>631</b>	<b>810</b>
	<b>Current liabilities</b>			
22	Short-term debt	4	2	49
31	Derivative financial liabilities	22	22	15
8	Income tax payable	34	10	14
28	Account and notes payable:			
	- Trade creditors	878	867	847
	- Accounts payable to related parties—Philips Group	11	20	37
		889	887	884
20	Accrued liabilities	491	459	447
18	Short-term provisions	243	227	240
10	Liabilities directly associated with assets classified held for sale	—	—	—
20	Other current liabilities	265	293	290
	<b>Total current liabilities</b>	<b>1,948</b>	<b>1,900</b>	<b>1,939</b>
	<b>Total liabilities and business equity</b>	<b>6,006</b>	<b>5,830</b>	<b>6,332</b>

The accompanying notes are an integral part of these Combined Financial Statements.

## D. COMBINED STATEMENTS OF CASH FLOWS

in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Cash flows from operating activities</b>			
Net income (loss)	168	(29)	240
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and impairments of non-financial assets	390	381	315
7      Impairment of non-current financial assets	—	—	4
Net gain on sale of assets	(1)	(2)	(26)
9      Interest income	(3)	(3)	(3)
9      Interest expense on debt, borrowings and other liabilities	4	9	7
8      Income tax expense	45	66	83
29     Share-based compensation	27	22	24
Decrease (increase) in working capital	(231)	(33)	209
Decrease (increase) in receivables and other current assets	(206)	(17)	—
Decrease (increase) in inventories	(94)	114	29
Increase (decrease) in accounts payable, accrued and other current liabilities	69	(130)	180
Increase (decrease) in non-current receivables, other assets and other liabilities	4	—	(29)
18     Increase (decrease) in provisions	(86)	116	(79)
Decrease (increase) in assets classified as held for sale	(1)	(1)	—
Interest paid	—	(5)	(2)
Income taxes paid	(54)	(43)	(26)
<b>Net cash provided by operating activities</b>	<b>262</b>	<b>478</b>	<b>717</b>
<b>Cash flows from investing activities</b>			
Net capital expenditures	(178)	(123)	(85)
13     Additions of intangible assets	(38)	(51)	(38)
Capital expenditures on property, plant and equipment	(159)	(109)	(98)
11     Proceeds from disposal of property, plant and equipment	19	37	51
Proceeds from other non-current financial assets	—	—	31
Purchase of businesses, net of cash acquired	—	(125)	(11)
Dividends received from investments in associates	2	(1)	—
<b>Net cash used for investing activities</b>	<b>(176)</b>	<b>(249)</b>	<b>(65)</b>
<b>Cash flows from financing activities</b>			
Additional funding from (payment to) Philips	(95)	(200)	(626)
Proceeds from issuance (payments) of debt	(2)	(1)	(12)
<b>Net cash used for financing activities</b>	<b>(97)</b>	<b>(201)</b>	<b>(638)</b>
<b>Net cash (used for) provided by continuing operations</b>	<b>(11)</b>	<b>28</b>	<b>14</b>
Effect of changes in exchange rates on cash and cash equivalents	2	(2)	(6)
Cash and cash equivalents at the beginning of the year	58	49	75
<b>Cash and cash equivalents at the end of the year</b>	<b>49</b>	<b>75</b>	<b>83</b>

The accompanying notes are an integral part of these Combined Financial Statements.

## E. COMBINED STATEMENTS OF CHANGES IN BUSINESS EQUITY

in millions of EUR unless otherwise stated

	Currency translation differences	Cash flow hedges	Result for the period	Funding by Philips	Owner's net investment	Non-controlling interests	Business equity
<b>Balance 1 January 2013</b>	—	—	—	<b>3,288</b>	<b>3,288</b>	<b>1</b>	<b>3,289</b>
Currency translation adjustment	(94)	—	—	—	(94)	—	(94)
Movement in hedging reserve	—	(2)	—	—	(2)	—	(2)
Other comprehensive income	(94)	(2)	—	—	(96)	—	(96)
Result for the year	—	—	168	—	168	—	168
Total comprehensive income	(94)	(2)	168	—	72	—	72
Share-based compensation	—	—	—	27	27	—	27
Movement in funding	—	—	—	(90)	(90)	—	(90)
Movement in non-controlling interests	—	—	—	—	—	1	1
<b>Balance 31 December 2013</b>	<b>(94)</b>	<b>(2)</b>	<b>168</b>	<b>3,225</b>	<b>3,297</b>	<b>2</b>	<b>3,299</b>
<b>Balance 1 January 2014</b>	<b>(94)</b>	<b>(2)</b>	<b>168</b>	<b>3,225</b>	<b>3,297</b>	<b>2</b>	<b>3,299</b>
Currency translation adjustment	172	—	—	—	172	7	179
Movement in hedging reserve	—	1	—	—	1	—	1
Other comprehensive income	172	1	—	—	173	7	180
Result for the year	—	—	(22)	—	(22)	(7)	(29)
Total comprehensive income	172	1	(22)	—	151	—	151
Share-based compensation	—	—	—	22	22	—	22
Movement in funding	—	—	—	25	25	—	25
Movement in non-controlling interests	—	—	—	—	—	86	86
Transfer of previous year's result	—	—	(168)	168	—	—	—
<b>Balance 31 December 2014</b>	<b>78</b>	<b>(1)</b>	<b>(22)</b>	<b>3,440</b>	<b>3,495</b>	<b>88</b>	<b>3,583</b>
<b>Balance 1 January 2015</b>	<b>78</b>	<b>(1)</b>	<b>(22)</b>	<b>3,440</b>	<b>3,495</b>	<b>88</b>	<b>3,583</b>
Currency translation adjustment	49	—	—	—	49	9	58
Movement in hedging reserve	—	3	—	—	3	—	3
Other comprehensive income	49	3	—	—	52	9	61
Result for the year	—	—	226	—	226	14	240
Total comprehensive income	49	3	226	—	278	23	301
Share-based compensation	—	—	—	24	24	—	24
Movement in funding	—	—	—	(284)	(284)	—	(284)
Movement in non-controlling interests	—	—	—	—	—	(8)	(8)
Transfer of previous year's result	—	—	22	(22)	—	—	—
<b>Balance 31 December 2015</b>	<b>127</b>	<b>2</b>	<b>226</b>	<b>3,158</b>	<b>3,513</b>	<b>103</b>	<b>3,616</b>

The accompanying notes are an integral part of these Combined Financial Statements.

## **2. NOTES TO THE COMBINED FINANCIAL STATEMENTS OF PHILIPS LIGHTING**

### **A. PARTICULARS OF THE BUSINESS**

On 23 September 2014, Koninklijke Philips N.V. (referred to as Royal Philips) announced its plan to sharpen its strategic focus by establishing two stand-alone companies focused on HealthTech and Lighting opportunities. The establishment of the two stand-alone companies also involves the allocation of elements of the Philips Innovation, Group & Services Sector (“IG&S”) to each company.

To achieve this transformation, Royal Philips started the process to separate its existing lighting business (except for the combined LED and automotive lighting components businesses) into a separate legal structure and considering various options for ownership structures that would have direct access to capital markets. For this purpose, Royal Philips transferred to Philips Lighting Holding B.V., the equity interests of certain entities that operate the lighting businesses, as well as assets and liabilities allocated to it (“Philips Lighting”). The legal separation of the lighting business was substantially completed on 1 February 2016, with the exception of certain delayed transfers.

Philips Lighting, comprising the former Lighting Sector of the Royal Philips group and the Lighting-related activities of IG&S, historically did not exist as a separate legal and reporting group and no separate (statutory) financial statements were therefore prepared. Accordingly, for purpose of the evaluation of the historical financial results of the Philips Lighting business and the preparation for capital markets access, Combined Financial Statements of Philips Lighting for the years 2013, 2014 and 2015 have been prepared.

Royal Philips is the parent company of Philips Lighting. The registered office of Royal Philips is High Tech campus 5 Eindhoven, The Netherlands.

As used herein, the term ‘Philips or Philips Group’ is used for Royal Philips or, as the context requires, for Royal Philips and its group companies excluding Philips Lighting.

The Philips Lighting business encompasses a large part of the lighting value chain—from light sources, luminaires, electronics and controls to application specific systems and services—and is conducted through the following business groups (BGs):

- BG Lamps;
- BG LED;
- BG Professional;
- BG Home.

### **B. INTRODUCTION TO THE COMBINED FINANCIAL STATEMENTS**

The Combined Financial Statements for the years ended 31 December 2015, 2014, and 2013 have been derived from the consolidated financial statements of Royal Philips, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as endorsed by the European Union (“EU”). All standards and interpretations issued by the International Accounting Standards Board (“IASB”) and the IFRS Interpretations Committee effective as of 31 December 2015 have been endorsed by the EU, except that the EU did not adopt certain paragraphs of IAS 39 applicable to certain hedge transactions. The Group has no hedge transactions to which these paragraphs are applicable. Consequently, the accounting policies applied by the Group also comply with IFRS as issued by the IASB.

As Philips Lighting has not previously prepared stand-alone financial statements, these Combined Financial Statements are the first IFRS financial statements of Philips Lighting in which IFRS 1 (First-time Adoption of International Financial Reporting Standards) has been applied. IFRS 1 sets out the procedures that an entity must follow when it adopts IFRSs for the first time as the basis for preparing its general purpose financial statements. As a first-time adopter, Philips Lighting has applied the exemption under IFRS 1.D13(a) to deem the cumulative foreign exchange differences to be zero at January 1, 2013 (the date of transition). Since Philips Lighting did not previously prepare combined financial statements, and accordingly does not have any previous GAAP for purposes of the combined financial statements, Philips Lighting is not required to present reconciliations as per IFRS 1.

The accounting policies applied in the Combined Financial Statements are, to the extent applicable, consistent with accounting policies applied in the Philips Group Consolidated Financial Statements. As a result, the Combined Financial Statements have been prepared according to IFRS 1.D16(b) and, apart from the applied exemption under IFRS 1.D13(a), reflect the carrying amounts that are included in Philips Group Consolidated Financial Statements.

The Combined Financial Statements have been prepared on a “carve-out basis” from the Philips Group Consolidated Financial Statements for the purpose of presenting the financial position, results of operations and cash flows of Philips Lighting on a stand-alone basis, as explained in section C, Basis of Preparation, below.

The Combined Financial Statements have been prepared on a going concern basis.

The Combined Financial Statements were authorized for issuance on 10 May 2016.

### **Basis of combination**

The Combined Financial Statements of Philips Lighting consist of the activities of the Philips Lighting Sector and the Lighting-related activities of the Philips IG&S Sector on a combined basis.

The Philips Lighting business is primarily conducted through legal entities that also comprise other Philips activities. Approximately 93 legal entities contain combined Philips Lighting and HealthTech or IG&S activities. In addition, 57 legal entities are dedicated Philips Lighting legal entities (refer to note E.3 – Interests in entities).

In the combination of Philips Lighting Sector and the Lighting-related activities of the Philips IG&S Sector, all intercompany balances and transactions between Philips Lighting entities have been eliminated. Unrealized gains and losses have also been eliminated in the combination, but, in the case of unrealized losses, only to the extent there is no indication of impairment.

The transactions and balances with Philips (including the other Philips entities not part of the allocated IG&S companies) have not been eliminated. For details of such transactions with Philips, refer to note E.28 – Related party transactions.

The Combined Financial Statements include activity-based allocations from Philips for centrally managed costs and expenses, such as sales office support in foreign locations, information technology support, shared accounting services, human resources and benefit management, treasury, and other corporate general and administrative expenses. For further details of the Basis of Preparation refer to note C.

Management believes the allocation methods applied in the Combined Financial Statements to be a reasonable reflection of the utilization of services provided by Philips Group. However, different allocation methods could have resulted in different outcomes. The allocation methods are therefore not necessarily representative of the financial positions, results of operations or cash flows that would have been reported if Philips Lighting operated on its own or as an entity independent from Philips Group during the periods presented. Actual future cost levels may thus deviate from historical presentation.

## **C. BASIS OF PREPARATION**

### **1. General**

These Combined Financial Statements present the Philips Lighting business of Philips Group, representing the activities, assets and liabilities of the Philips Lighting Sector and the Lighting-related activities of the Philips IG&S Sector that relate to or have been assigned to the Philips Lighting business.

The Combined Financial Statements reflect the substance of the activities, assets and liabilities attributable to Philips Lighting. The legal structure was not considered the key factor in determining the perimeter of the Combined Financial Statements, but rather the basis of the economic activities.

The Combined Financial Statements have been prepared on a “carve-out basis” from the Philips Group Consolidated Financial Statements for the purpose of presenting the financial position, results of operations and cash flows of Philips Lighting on a stand-alone basis.

The Combined Financial Statements present the assets, liabilities, revenues, expenses and cash flows attributable to Philips Lighting for the years ended 31 December 2015, 2014 and 2013. The Combined financial statements have been prepared under the historical cost convention, unless otherwise indicated. The fair value of financial assets and liabilities is presented in note E.31.



Transactions and balances previously reported as part of the continuing operations of the Philips Lighting Sector have been directly attributed to Philips Lighting. Transactions and balances previously reported as part of IG&S 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 under the circumstances and further explained below.

#### *Combined Balance Sheets*

The Philips Lighting Combined Balance Sheets include the assets and liabilities previously reported as part of the Philips Lighting Sector as well as the Lighting-related assets and liabilities of the Philips IG&S Sector, which have been determined in the following manner:

- Property, plant and equipment ('PP&E'): PP&E held centrally in IG&S have been assigned fully to either Philips Lighting or Philips Group based on main user of the asset.
- Intangible assets held in IG&S mainly comprise IT related assets, which have been allocated between Philips Lighting and Philips Group based on relative usage.
- Receivables: unless balances could be specifically assigned to either Philips Lighting or Philips Group, these were allocated based on the relative percentage of net Philips Lighting or net Philips Group sales of IG&S, which approximates allocation on an item-by-item basis.
- Trade and other payables: unless payables could be specifically assigned to either Philips Lighting or Philips Group, these balances are allocated to either Philips Lighting or Philips Group based on the relative percentage of the external costs in IG&S, which approximates allocation on an item-by-item basis.
- Accrued liabilities: unless accruals could be specifically assigned to either Philips Lighting or Philips Group, these were allocated based on headcount or using a cost allocation ratio depending on the specific nature of the balance.

#### *Combined Statements of Income*

Philips charges central IG&S costs, such as IT, finance and accounting, HR, real estate and other central support services, to its sectors mainly based on activity (headcount, floor area, etc.), sales or gross margin.

Historically, a significant portion of the IG&S costs were already charged to the Lighting Sector. The combination of the Lighting-related activities of IG&S mainly resulted in additional allocation of previously unallocated costs to Philips Lighting. Previously unallocated costs mainly comprise Group funded research programs, Group overhead and other items such as restructuring and foreign exchange results. The allocation to Philips Lighting of previously unallocated costs is based on activity.

Group-funded research costs were allocated according to the project-level administration of the business for which the activity has been performed.

Group overhead includes central finance functions including treasury and tax, human resources, strategy, business transformation, brand, communication & digital, legal and general management including the Philips Executive Committee. The costs of Group overhead have been allocated based on estimated activity levels and the relation of these functions to Philips Lighting and Philips Group.

Other items of IG&S, such as restructuring costs, foreign exchange results and other items, have been allocated to Philips Lighting based on its relative share in overall costs of IG&S.

Employee benefit expenses and other operational costs were allocated to Philips Lighting based on activity. Depreciation and amortization were assigned to Philips Lighting based on the split of related assets.

Interest expense recorded in the Combined Statements of Income does not include any allocation of interest incurred by Philips Group or interest on funding provided as part of the owner's net investment.

#### *Combined statements of Cash flows*

The combined statements of cash flow have been prepared using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash

flows. For a number of reasons, principally the effects of translation differences and acquisitions and disposals, certain items in the combined statements of cash flows do not correspond to the changes between the Combined Balance Sheets amounts for the respective items. Cash deposits of the Philips Group are pooled and transferred to a Central Treasury function on a daily basis wherever possible. Amounts for cash, cash equivalents and debt are reflected in the Combined Financial Statements only for those activities of Philips Lighting that operated or existed in separate dedicated Philips Lighting legal entities, during the period of the Combined Financial Statements. For all other activities, changes in cash and debt balances form part of additional funding from (payment to) Philips.

## **2. Pensions**

Philips Group is the sponsor of Group defined benefit plans (DB) that are externally funded. The net liabilities of these Group DB plans are recognized at Group level only, and not included in the accompanying Combined Financial Statements. Group DB plans are accounted for in accordance with the Philips Group policy for charging pension costs to the participating entities. The service cost in Group DB plans are allocated to the participating companies, including Philips Lighting. Cash contributions to externally funded plans occur at Philips Group level and no further cash of the participating Philips Lighting companies is requested other than their share in the cost.

The only Philips Lighting DB plan is the mandatory end-of-service benefit of the GLC joint venture in Saudi Arabia, in which Philips Lighting holds a 51% interest, which has no external funding. The liability of such a plan equals the defined benefit obligation (DBO) as determined under the guidance of IAS 19 and as calculated by a local actuary. The liability is included in the Combined Balance Sheets under provisions.

Philips Lighting will assume certain liabilities from Philips Group at the date of separation, including pension obligations. These pension obligations are not reflected in the Combined Financial Statements of Philips Lighting as the legal obligation did not exist prior separation in 2016 (refer to note E.32).

## **3. Share-based compensation**

Certain employees working in the Philips Lighting Sector and the Lighting-related activities of the Philips IG&S Sector are entitled to stock options, restricted shares and/or performance shares of Philips. The related share-based compensation expenses historically have been allocated to the Sectors based on an estimate of the services delivered (time spent) by the employees for the Philips Lighting Sector and the Lighting-related activities of the Philips IG&S Sector.

Since mid-2015, all employees within Philips have been allocated to either Royal Philips or Philips Lighting by the HR department of Philips. Based upon this allocation IFRS 2 disclosures have been prepared.

## **4. Income tax**

Philips Lighting legal entities, either through a fiscal unity or because the business unit forms part of a larger Philips legal entity, file a consolidated return with other Philips activities or entities for the majority of their jurisdictions. For the purpose of the Combined Financial Statements, income taxes are computed and reported using the separate return method. The resulting deferred tax assets and liabilities are accounted for using the asset and liability approach. Philips Lighting management estimates the income taxes for each of the jurisdictions in which they operate. This involves estimating their actual current tax exposures and assessing temporary and permanent differences resulting from differing treatment of items, such as reserves and accruals, for tax and accounting purposes.

Philips Lighting management considers the separate tax return method to be reasonable, but it does not necessarily lead to the tax result that would have been incurred if the Philips Lighting entities were separate taxable entities. The separate taxable entities assumption implies that current and deferred taxes of all Philips Lighting entities are calculated separately and any resulting deferred tax assets are evaluated for utilization following this assumption.

In certain jurisdictions, Philips Lighting operations were included with other Philips operations in a consolidated group tax return. Accordingly, income tax associated with these tax groups was reported in the Consolidated Financial Statements of Philips Group and paid by Philips Group. The effects of being included in the Philips Group consolidated tax returns, including the utilization of any historical net operating losses, have

been recorded as part of owner's net investment in business equity. The Combined Statement of Cash Flows present taxes actually paid by tax groups within Philips Lighting; the effects of being included in the Philips Group consolidated tax returns have not been included.

## **5. Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('CODM') as part of the Philips Lighting management. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') of Philips Lighting. The operating segments are BG Lamps, BG LED, BG Professional and BG Home. The segments are organized based on the nature of the products and services.

## **6. Owner's net investment**

The Philips Group utilizes a central approach for cash management and the funding of its operations. As a contractual obligation to deliver cash or other financial assets in relation to the funding from other Philips entities did not exist during the historical periods presented and the balances will not be settled with Philips Lighting's own equity instruments, all balances with Philips Group are presented as owner's net investment in the Combined Financial Statements, except for intercompany current accounts with Philips Group that have an operational nature and are settled periodically based on instructions from Philips Group Treasury.

## **7. Funding structure**

Cash deposits of the Philips Group are pooled and transferred to a Central Treasury function to the extent legally and fiscally possible. Amounts for cash, cash equivalents and debt are reflected in the Combined Financial Statements only for those activities of Philips Lighting that operated or existed in separate dedicated Philips Lighting legal entities, during the period of the Combined Financial Statements. For all other activities, cash and debt balances with Philips Group have been presented as part of owner's net investment. The funding structure is therefore not necessarily representative of the financing that would have been reported if Philips Lighting operated on its own or as an entity independent from Philips Group during the periods presented, nor is it indicative of the financing that may arise in the future.

## **8. Use of the Philips brand name**

Philips Lighting uses the Philips brand name. The Combined Financial Statements include costs charged to Philips Lighting for its share in the advertising & promotion costs. As part of the separation, these charges are expected to be replaced by a brand license fee agreement between Philips Lighting and Philips Group.

## **9. Earnings per share**

The information on earnings per share for Philips Lighting pursuant to IAS 33 has not been presented, as the combined entities have not formed a statutory group and, as such, Philips Lighting has no historical capital structure.

## **10. Subsequent events**

Subsequent events have been considered for adjustment or disclosure up to 23 February 2016, the date the Philips Group Consolidated Financial Statements, from which these Combined Financial Statements were derived, were authorized for issue.

## **D. SIGNIFICANT ACCOUNTING POLICIES**

### **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Combined Financial Statements in conformity with IFRS, as endorsed by the EU, requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, income and expenses and assumptions that affect amounts reported in the Combined Financial Statements. These estimates inherently contain a degree of uncertainty. Actual results may differ from these estimates.

These estimates and judgements are evaluated on an on-going basis and are based on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that are considered reasonable under the circumstances. The results of these estimates form the basis for making judgements about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. We revise material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

## **THE AREAS WHERE THE MOST SIGNIFICANT JUDGEMENTS AND ESTIMATES ARE**

### *Goodwill and other intangible assets*

Philips Lighting has recognized significant balances of goodwill, customer relationships, brand names and technology as intangible assets. Furthermore, expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible and Philips Lighting has sufficient resources and the intention to complete development.

### *Impairment of goodwill and intangible assets not yet ready for use*

Further judgement is applied when analyzing impairments of goodwill and intangible assets not ready for use. Goodwill, intangible assets not yet ready for use are not amortized but tested for impairment annually and whenever impairment indicators require impairment testing. Philips Lighting performed and completed annual impairment tests in the same quarter of all years presented in the Combined Statements of Income. An impairment loss is recognized in the Combined Statements of Income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and fair value less costs to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset.

### *Impairment of non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets*

Non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is recognized and measured by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost to sell. Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent that there has been a change in estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Combined Statements of Income.

### *Deferred tax asset recoverability and other tax liabilities*

The evaluation of the recoverability of deferred tax assets requires judgement about the future taxable profitability of the legal entity holding the tax loss carry forward. A lack of future taxable profits or taxable profits below the level of current estimates, may cause deferred tax assets to be impaired.

Other tax liabilities include liabilities for uncertain tax positions which are recognized when it is probable that additional tax will be due. Actual tax assessments in relation to these other tax liabilities may significantly deviate from estimates.

In determining the amount of current and deferred income tax, Philips Lighting takes into account the impact of other tax liabilities and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes Philips Lighting to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

### *Revenue recognition*

Commercial agreements may contain multiple elements. The separate accounting for each of these elements based on its fair value requires judgement.

### *Useful lives of intangible and tangible assets*

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Patents and trademarks with a finite useful life acquired from third parties either separately or as part of a business combination are capitalized at cost and amortized over their remaining useful lives. Amortization of capitalized development expenditure is charged to the Combined Statements of Income on a straight-line basis over the estimated useful lives of the intangible assets.

### *Inventory valuation and obsolescence provision*

Due to price erosion and technological developments, inventory valuation requires forward looking estimates on future sales levels, future price erosion and related expected gross margin percentages. On each reporting date, management performs an analysis of net realizable values and determines the lower of cost and net realizable value to measure its inventories.

### *Estimation of allowances for doubtful accounts*

Philips Lighting determines the present value of estimated future cash flows through the use of allowances for doubtful accounts receivable based on an individual or collective assessment of the collectability of trade and other receivables. Allowances for doubtful accounts receivable are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debtors requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and doubtful debt expense in the period in which such estimate is changed.

### *Provisions*

In order to recognize a provision, it is necessary to reliably estimate the present obligation. Further judgement is required to determine the likelihood of an outflow of economic benefits.

### *Fair value of derivatives and other financial instruments*

Philips Lighting manages their exposure on foreign currency purchases and sales using forward foreign exchange contracts, which are reported at fair value. The fair value of the forward foreign exchange contracts has been determined using discounted cash flow calculations using directly observable market inputs (level 2).

### *Contingent liabilities*

Philips Lighting had certain guarantees, environmental remediation and legal proceedings at the reporting dates. Significant judgement is required in determining whether it is probable that an outflow of resources will be required to settle, in which case an accrual for the potential settlement is recognized.

### *Basis of allocation*

The nature of the Combined Financial Statements requires management to make estimates of a reasonable assignment or allocation for assets, liabilities and costs shared with other Philips businesses. These allocations were performed in a manner deemed reasonable by management and are explained in section C, Basis of Preparation. Different allocation methods could have resulted in different outcomes.

The basis of allocation is therefore not necessarily representative of the assets, liabilities or costs that would have been reported if Philips Lighting operated on its own or as an entity independent from Philips during the periods presented, nor is it indicative of the assets, liabilities or costs that may arise in the future.

### *Specific choices within IFRS*

Sometimes IFRS allows alternative accounting treatments for measurement and/or disclosure. The most important of these alternative treatments are mentioned below



## **POLICIES THAT ARE MORE CRITICAL IN NATURE**

### **1. Revenue recognition**

Revenue from the sale of goods in the course of the ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue for sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing involvement with goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Transfer of risks and rewards varies depending on the individual terms of the contract of sale. For consumer-type products these criteria are met at the time the product is shipped and delivered to the customer and title and risk have passed to the customer (depending on the delivery conditions) and acceptance of the product has been obtained. Examples of delivery conditions are 'Free on Board point of delivery' and 'Costs, Insurance Paid point of delivery', where the point of delivery may be the shipping warehouse or any other point of destination as agreed in the contract with the customer and where title and risk for the goods pass to the customer.

Revenues of transactions that have separately identifiable components are recognized separately based on their relative fair values.

Revenues are recorded net of sales taxes, customer discounts, rebates and similar charges. For products for which a right of return exists during a defined period, revenue recognition is determined based on the historical pattern of actual returns, or in cases where such information is not available, revenue recognition is postponed until the return period has lapsed. Return policies are typically based on customary return arrangements in local markets.

In case of loss under a sales agreement, the loss is recognized immediately.

Shipping and handling billed to customers is recognized as revenues. Expenses incurred for shipping and handling of internal movements of goods are recorded as cost of sales. Shipping and handling related to sales to third parties are recorded as selling expenses. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as cost of sales. Service revenue related to repair and maintenance activities for goods sold is recognized ratably over the service period or as services are rendered.

A provision for product warranty is made at the time of revenue recognition and reflects the estimated costs of replacement and free-of-charge services that will be incurred by Philips Lighting with respect to the products. For certain products, the customer has the option to purchase an extension of the warranty, which is subsequently billed to the customer. Revenue recognition occurs on a straight-line basis over the contract period.

Revenue from services is recognized when Philips Lighting can reliably measure the amount of revenue and the associated cost related to the stage of completion of a contract or transaction, and the recovery of the consideration is considered probable. Royalty income, which is generally earned based upon a percentage of sales or a fixed amount per product sold, is recognized on an accrual basis based on actual or reliably estimated sales made by the licensees.

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and Philips Lighting will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the Combined Statements of Income over the period necessary to match them with the costs that they are intended to compensate.

### **2. Income taxes**

Income tax comprises current and deferred tax. Income tax is recognized in the Statements of income except to the extent that it relates to items, recognized directly within business equity or in other comprehensive income. Current tax is the expected tax charge on the taxable income for the year, using tax rates enacted or substantially-enacted at the reporting date, and any adjustment to tax charge in respect of previous years.

Deferred tax assets and liabilities are recognized using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied when temporary differences reverse, based on laws that are enacted or substantially enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally-enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible. Changes in tax rates are reflected in the period when the change has been enacted or substantially-enacted by reporting date.

### 3. Provisions

Provisions are recognized if, as a result of a past event, Philips Lighting has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of time value of money. The increase in the provision due to passage of time is recognized as interest expense.

The accounting and presentation for some of Philips Lighting's provisions is as follows:

- Restructuring-related provisions—The provision for restructuring relates to the estimated costs of initiated reorganizations which involve the realignment of certain parts of the support, industrial and commercial organization. When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure are included in the restructuring provisions. A liability is recognized for those costs only when Philips Lighting has a detailed formal plan for the restructuring and have raised a valid expectation with those affected that they will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Before a provision is established, Philips Lighting recognizes any impairment loss on the assets associated with the restructuring
- Environmental provisions—Measurement of liabilities associated with environmental obligations, is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of environmental provisions is regularly reviewed and adjusted for new facts and changes in law.
- Product warranty—A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.
- Litigation provisions—In relation to legal claim provisions and settlements, the relevant balances are transferred to Other liabilities at the point the amount and timing of cash flows are no longer uncertain. Settlements which are agreed for amounts in excess of existing provisions are reflected as increases of Other liabilities.
- Onerous contract provision—Provisions are recognized for a contract if it is onerous. The present obligation under the contract is measured and recognized as a provision. An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### **4. Goodwill**

The measurement of goodwill at initial recognition is described under accounting policy note 6, Business combinations, below. Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of investments in associates, the carrying amount of goodwill is included in the carrying amount of investment, and an impairment loss on such investment is allocated to the investment as a whole.

#### **5. Intangible assets other than goodwill**

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Patents and trademarks with a finite useful life acquired from third parties either separately or as part of the business combination are capitalized at cost and amortized over their remaining useful lives. Intangible assets acquired as part of a business combination are capitalized at their acquisition-date fair value.

Philips Lighting expenses all research costs as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible, cost can be reliably measured, Philips Lighting has sufficient resources and the intention to complete development.

The development expenditure capitalized comprises all directly attributable costs (including the cost of materials and direct labor). Other development expenditures and expenditures on research activities are recognized in the Combined Statements of Income. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization of capitalized development expenditure is charged to the Statements of Income on a straight-line basis over the estimated useful lives of the intangible assets.

### **OTHER POLICIES**

#### **6. Business combinations**

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized at the acquisition date, which is the date on which control is transferred to Philips Lighting. Philips Lighting measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that Philips Lighting incurs are expensed as incurred.

Any contingent consideration payable is recognized at fair value at the acquisition date and initially is presented as long-term provisions. When the timing and amount of the consideration become more certain, it is reclassified to accrued liabilities. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the Combined Statements of Income.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

#### *Acquisitions of and adjustments to non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

### *Loss of control*

Upon the loss of control, Philips Lighting derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the Statements of Income. If Philips Lighting retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as either an equity accounted investee (associate) or as an available-for-sale financial asset, depending on the level of influence retained.

### **7. Investments in associates (equity-accounted investees)**

Associates are all entities over which Philips Lighting has significant influence, but does not control. Significant influence is presumed with a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. Philips Lighting's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

Philips Lighting's share of the net income of these companies is included in Results relating to investments in associates in the Combined Statements of Income, after adjustments to align the accounting policies with those of Philips Lighting, from the date that significant influence commences until the date that significant influence ceases. Dilution gains and losses arising from investments in associates are recognized in the Combined Statements of Income as part of Other results relating to investments in associates. When Philips Lighting's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term loans) is reduced to zero and recognition of further losses is discontinued except to the extent that Philips Lighting has incurred legal or constructive obligations or made payments on behalf of the associate. Unrealized gains on transactions between Philips Lighting and its associates are eliminated to the extent of Philips Lighting's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Re-measurement differences of equity stakes resulting from gaining control over the investee previously recorded as associate are recorded under results relating to investments in associates.

### **8. Non-current assets held for sale**

Non-current assets (disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

Non-current assets held for sale are carried at the lower of carrying amount or fair value less cost to sell. Comparatives in the balance sheet are not represented when a non-current asset is classified as held-for-sale.

### **9. Impairment of financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the financial assets below its cost is considered an indicator that the financial assets are impaired. If any such evidence exists for available-for-sale for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the Combined Statements of Income – is reclassified from the fair value reserve in business equity (through Other comprehensive income) to the Combined Statements of Income.

If objective evidence indicates that financial assets that are carried at cost need to be tested for impairment, calculations are based on information derived from business plans, and other information available for estimating their fair value, which is based on estimated future cash flows discounted at the asset's original effective interest rate. Any impairment loss is charged to the Combined Statements of Income.

An impairment loss related to financial assets is reversed if in a subsequent period, the fair value increases and the increase can be related objectively to an event occurring after the impairment loss was recognized. The loss is reversed only to the extent that the asset's carrying amount does not exceed the amount that would have been determined if no impairment loss had been recognized. Reversals of impairment are recognized in the Combined Statements of Income, except for reversals of impairment of available-for-sale securities, which are recognized in Other comprehensive income.

## **10. Foreign currencies**

### *Foreign currency transactions*

The financial statements of all reporting units included in the Combined Financial Statements are measured using the currency of the primary environment in which the reporting unit operates (functional currency). The Euro (EUR) is the presentation currency of Philips Lighting. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Combined Statements of Income, except when deferred in Other Comprehensive Income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign currency differences arising from translation are recognized in the Combined Statements of Income, except for available-for-sale equity investments which are recognized in Other Comprehensive Income, except on impairment in which case foreign currency differences that have been recognized in Other Comprehensive Income are reclassified to the Combined Statements of Income.

Exchange difference items are presented as part of cost of sales, with the exception of tax items and financial income and expense, which are recognized in the same line item as they relate in the Combined Statements of Income.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate at the date the fair value was determined. Non-monetary assets and liabilities in foreign currencies measured at historical cost are translated using the exchange rate at the transaction date.

### *Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation of foreign operations into euro are recognized in Other comprehensive Income, and presented as part of currency translation differences in Owner's Net Investment. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to Non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the Currency translation differences related to the foreign operation is reclassified to the Combined Statements of Income as part of the gain or loss on disposal. When Philips Lighting disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the respective proportion of the cumulative amount is reattributed to Non-controlling interests. When Philips Lighting disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Combined Statements of Income.

## **11. Non-derivative financial instruments**

Non-derivative financial instruments are recognized initially at fair value when Philips Lighting becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition non-derivative financial instruments are measured at amortized cost or fair value. Regular way purchases and sales of financial instruments are accounted for at the trade date. Dividend and interest income are recognized when earned. Gains or losses, if any, are recorded in Financial income and expense. Non-derivative financial instruments comprise cash and cash equivalents, receivables, other non-current financial assets, debt and other financial liabilities that are not designated as hedges.

## **12. Cash and cash equivalents**

Cash and cash equivalents represent cash positions of dedicated Philips Lighting positions only. Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash.



### **13. Derivative financial instruments, including hedge accounting**

Philips Lighting uses derivative financial instruments principally to hedge its foreign currency risks and, to a more limited extent, for commodity price risks. All derivative financial instruments are accounted for at the trade date and classified as current or non-current assets or liabilities based upon the maturity date or the earlier termination date. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

Philips Lighting measures all derivative financial instruments at fair value derived from market prices of the instruments, or calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread, credit spreads and foreign exchange rates, or from option pricing models, as appropriate. Gains or losses arising from changes in fair value of derivatives are recognized in the Combined Statements of Income, except for derivatives that are highly effective and qualify for cash flow or net investment hedge accounting.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, are recorded in Combined Other comprehensive income, until the Combined Statements of Income is affected by the variability in cash flows of the designated hedged item. To the extent that the hedge is ineffective, changes in the fair value are recognized in the Combined Statements of Income.

Philips Lighting formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Philips Lighting discontinues hedge accounting prospectively. When hedge accounting is discontinued because it is expected that a forecasted transaction will not occur, Philips Lighting continues to carry the derivative on the Combined Balance Sheets at its fair value, and gains and losses that were accumulated in equity are recognized immediately in the Combined Statements of Income. If there is a delay and it is expected that the transaction will still occur, the amount in equity remains there until the forecasted transaction affects income. In all other situations in which hedge accounting is discontinued, Philips Lighting continues to carry the derivative at its fair value on the Combined Balance Sheets, and recognizes any changes in its fair value in the Statements of Income. Foreign currency differences arising on the retranslation of financial instruments designated as a hedge of a net investment in a foreign operation are recognized directly as a separate component of equity through Other comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the Combined Statements of Income.

Foreign currency differences arising on the retranslation of financial instruments designated as a hedge of a net investment in a foreign operation are recognized directly as a separate component of equity through Other comprehensive income, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the Statements of Income.

Philips Lighting presents financial assets and financial liabilities on a gross basis as separate line items in the Combined Balance Sheets. Master netting agreements may be entered into when Philips Lighting undertakes a number of financial instrument transactions with a single counterparty. Such an agreement provides for a net settlement of all financial instruments covered by the agreement in the event of default or certain termination events on any of the transactions. A master netting agreement may create a right to offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified termination event. However, if this contractual right is subject to certain limitations then it does not necessarily provide a basis for offsetting unless both of the offsetting criteria are met, i.e. there is a legally enforceable right and an intention to settle net or simultaneously.

### **14. Receivables**

Receivables are carried at the lower of amortized cost or the present value of estimated cash flows, taking into account discounts given or agreed. The present value of estimated future cash flows is determined through the use of value adjustments for uncollectible amounts. As soon as individual trade accounts receivable can no longer be collected in a normal way and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectable because of bankruptcy or other form of receivership at the debtors. The allowance for the risk of non-collection of trade receivables takes into account credit-risk concentration, collective debt risk based on average historical losses and specific circumstances such as serious adverse economic conditions in a certain country or region.

## **15. Other non-current financial assets**

Other non-current financial assets include held-to-maturity investments, loans receivable and available-for-sale financial assets and financial assets at fair value through profit or loss.

Held-to-maturity investments are those debt securities which Philips Lighting has the ability and intent to hold until maturity. Held-to-maturity debt investments are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts using the effective interest method.

Loans receivable are stated at amortized cost, less impairment.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available for sale-debt instruments are recognized in Combined Other comprehensive income and presented in the fair value reserve in business equity.

When an investment is derecognized, the gain or loss accumulated in equity is reclassified to the Combined Statements of Income.

Available-for-sale financial assets including investments in privately-held companies that are not associates, and do not have a quoted market price in an active market and whose fair value could not be reliably determined, are carried at cost.

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if Philips Lighting manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Philips Lighting's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the Combined Statements of Income. Attributable transaction costs are recognized in the Combined Statements of Income as incurred.

## **16. Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## **17. Property, plant and equipment**

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually. The costs of property, plant and equipment comprise of all directly attributable costs (including the cost of materials and direct labor). Government grants for assets are deducted from the cost of the related asset.

Depreciation of property, plant and equipment, other than freehold land, is calculated using the straight-line method, taking into account the residual values and estimated useful lives. Freehold land is not depreciated. Gains and losses on the sale of property, plant and equipment are included in Other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime of capacity.

Plant and equipment under finance leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The gain realized on sale and operating leaseback transactions that are concluded based upon market conditions is recognized at the time of the sale.

## **18. Leased assets**

Leases in which Philips Lighting is the lessee and has substantially all risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Combined Statements of Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other short-term and other non-current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which Philips Lighting is the lessee and in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentive received from the lessor) are recognized in the Combined Statements of Income on a straight-line basis over the term of the lease.

## **19. Inventories**

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, taking into account the stage of completion and the normal capacity of production facilities. Costs of idle facility and abnormal waste are expensed. The cost of inventories is determined using the first-in, first-out (FIFO) method. Inventory is reduced for the estimated losses due to obsolescence. This reduction is determined for groups of products based on purchases in the recent past and/or expected future demand.

## **20. Debt and other liabilities**

Debt and other liabilities other than provisions are measured initially at fair value and subsequently are measured at amortized cost using the effective interest method.

## **21. Employee benefits**

### *Pension obligations*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Combined Statements of Income in the periods during which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Plans for which the Philips Lighting has no legal or constructive obligation to pay further amounts, but for which contributions paid by the Philips Lighting are not fixed, are also treated as defined benefit plans. For Philips Group defined benefit plans that are not externally funded, but for which Philips Lighting has the obligation to settle the post-employment benefit, the related liability is included in the Combined Balance Sheets under provisions (see note 18, Provisions)

The projected defined benefit obligation is calculated annually using the projected unit credit method.

### *Termination benefits*

Termination benefits are payable when employment is terminated by Philips Lighting before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Philips Lighting recognizes termination benefits when they are demonstrably committed to a termination and when they have a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

### *Bonus plans and other current employee benefits*

Philips Lighting recognizes a liability and an expense for bonuses and other current employee benefits on an accrual basis. Furthermore a provision is recognized where contractually obliged or where there is a past practice that has created a constructive obligation.

## **22. Share-based compensation expenses**

As per mid-2015, all employees within Philips have been allocated to either Philips Group or Philips Lighting. This allocation is retrieved from the Philips HR department, and employee IDs have been matched with the employee IDs included in the share-based payment cost allocation application. Based on this allocation employees have been traced back for Philips Lighting to 2013 and 2014 for comparative figures. Shares granted to employees whom either left or did not transfer to Philips Lighting have been adjusted so that, ultimately, the amount recognized for services received as consideration for the shares granted shall be based on the number of shares that eventually vest.

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a corresponding increase in equity, over the vesting period of the award. Philips Lighting uses the Black-Scholes option-pricing model and Monte Carlo simulation to determine the fair value of the awards, depending on the type of instruments granted and certain vesting conditions.

## **23. Financial income and expenses**

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, net gains on the disposal of available-for-sale financial assets, net fair value gains on financial assets at fair value through profit and loss, net gains on the re-measurement to fair value of any pre-existing available-for-sale interest in an acquiree, and net gains on foreign exchange impacts that are recognized in the Combined Statements of Income.

Interest income is recognized on an accrual basis in the Combined Statements of Income, using the effective interest method. Dividend income is recognized in the Combined Statements of Income on the date that Philips Lighting's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Financial expense comprises interest expenses on borrowings, unwinding of the discount of provisions and contingent consideration, losses on disposal of available-for-sale financial assets, net fair value losses on financial assets at fair value through profit and loss, impairment losses recognized on financial assets (other than trade receivables), net interest expenses related to defined benefits plans and net losses on hedging instruments that are recognized in the Combined Statements of Income.

## **24. Financial guarantees**

Philips Lighting recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract. The guarantee is subsequently measured at the higher of the best estimate of the obligation or the amount initially recognized.

## **25. Combined Statements of Cash Flows**

The combined statements of cash flow are prepared using the indirect method. Cash flows in foreign currencies have been translated into Euro using the exchange rate at the date of the cash flow. Cash flows from derivative instruments that are accounted for as fair value hedges or cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument.

## **26. Changes in accounting policies and disclosures**

### **IFRS accounting standards to be adopted as from 2016 and onwards**

A number of new standards and amendments to existing standards have been published and are mandatory for Philips Lighting beginning on or after January 1, 2016 or later periods, and Philips Lighting has not early adopted them. Those which may be the most relevant to the Philips Lighting are set out below. Changes to other standards, following from Amendments and the Annual Improvement Cycles, are not expected to have a material on the Philips Lighting Combined Financial Statements.

#### *IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 adds a new expected loss impairment model and amendments to classification and measurement for

financial assets. The impairment model is based on the concept of providing for expected losses at inception of a contract, except in the case of purchased or originated credit-impaired financial assets, where expected credit losses are incorporated into the effective interest rate. The Standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 2018. Philips Lighting is currently in the process of assessing the impact of the new Standard. This standard has not yet been endorsed by the European Union.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 specifies how and when revenue is recognized as well as describes more informative and relevant disclosures. The Standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and a number of revenue related interpretations.

The new Standard provides a single, principles based five-step model to be applied to all contracts with customers. Furthermore, it provides new guidance on whether revenue should be recognized at a point in time or over time. The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized. Costs that do not meet the criteria must be expensed when incurred.

IFRS 15 must be applied for periods beginning on or after January 1, 2018. It is not yet endorsed by the EU. Philips Lighting is currently assessing the impact of the new standard.

#### *IFRS 16 Leases*

For lessees, IFRS 16 (issued on January 13, 2016) requires most leases to be recognized on-balance (under a single model), eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 Leases and related interpretations.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and is depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined, and the liability accrues interest. As with current IAS 17, under IFRS 16 lessors classify leases as operating or finance in nature. IFRS 16 must be applied for periods beginning on or after January 1, 2019, with earlier adoption permitted if abovementioned IFRS 15 has also been applied. IFRS 16 is not yet endorsed by the EU. Philips Lighting is currently assessing the impact of the new standard.



## E. DISCLOSURE NOTES

### 1. Information by segment and main country

The operating segments are BG Lamps, BG LED, BG Professional and BG Home. The segments are organized based on the nature of the products and services. 'Others' represents amounts not allocated to the operating segments and mainly comprise the activities of Lighting Group Innovation and certain costs of Group headquarters.

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

**Information on income statement by segment** in millions of EUR unless otherwise stated  
2013-2015

	<u>Sales</u>	<u>Sales including intersegment</u>	<u>Income (loss) from operations</u>	<u>Income (loss) from operations as a % of sales</u>
<b>2015</b>				
BG Lamps	2,850	2,898	467	16%
BG LED	1,334	1,427	87	6%
BG Professional	2,732	2,748	114	4%
BG Home	513	518	(53)	(10%)
Others	36	36	(284)	— <sup>1</sup>
Intersegment eliminations		(162)		
<b>Philips Lighting</b>	<b>7,465</b>	<b>7,465</b>	<b>331</b>	<b>4%</b>
<b>2014</b>				
BG Lamps	3,119	3,181	403	13%
BG LED	958	1,025	(48)	(5%)
BG Professional	2,407	2,420	16	1%
BG Home	482	485	(57)	(12%)
Others	15	15	(273)	— <sup>1</sup>
Intersegment eliminations		(145)		
<b>Philips Lighting</b>	<b>6,981</b>	<b>6,981</b>	<b>41</b>	<b>1%</b>
<b>2013</b>				
BG Lamps	3,557	3,658	665	18%
BG LED	772	828	(4)	(0%)
BG Professional	2,301	2,330	18	1%
BG Home	490	492	(136)	(28%)
Others	9	9	(330)	— <sup>1</sup>
Intersegment eliminations		(188)		
<b>Philips Lighting</b>	<b>7,129</b>	<b>7,129</b>	<b>213</b>	<b>3%</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  
2013—2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Netherlands	387	381	438
United States	1,585	1,572	1,795
China	573	518	472
Germany	462	468	469
India	351	363	417
Saudi Arabia	—	86	288
Other countries	3,771	3,593	3,586
<b>Total sales</b>	<b>7,129</b>	<b>6,981</b>	<b>7,465</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  
2013—2015

	<u>Total assets</u>	<u>Total Liabilities excl. debt</u>	<u>Depreciation and amortization</u>
<b>2015</b>			
BG Lamps	1,196	(844)	(89)
BG LED	589	(315)	(20)
BG Professional	3,624	(627)	(155)
BG Home	373	(180)	(14)
Others	<u>627</u>	<u>(767)</u>	<u>(37)</u>
<b>Philips Lighting subtotal</b>	<b>6,409</b>	<b>(2,733)</b>	<b>(315)</b>
Assets classified as held for sale	34	(6)	
<b>Total assets/liabilities (excl. debt)</b>	<b><u>6,443</u></b>	<b><u>(2,739)</u></b>	
<b>2014</b>			
BG Lamps	1,431	(887)	(118)
BG LED	473	(310)	(73)
BG Professional	3,469	(585)	(149)
BG Home	343	(142)	(10)
Others	<u>596</u>	<u>(735)</u>	<u>(31)</u>
<b>Philips Lighting subtotal</b>	<b>6,312</b>	<b>(2,659)</b>	<b>(381)</b>
Assets classified as held for sale	20	0	
<b>Total assets/liabilities (excl. debt)</b>	<b><u>6,332</u></b>	<b><u>(2,659)</u></b>	
<b>2013</b>			
BG Lamps	1,594	(918)	(104)
BG LED	414	(234)	(19)
BG Professional	2,903	(548)	(155)
BG Home	378	(165)	(78)
Others	<u>526</u>	<u>(658)</u>	<u>(34)</u>
<b>Philips Lighting subtotal</b>	<b>5,815</b>	<b>(2,523)</b>	<b>(390)</b>
Assets classified as held for sale	15	0	
<b>Total assets/liabilities (excl. debt)</b>	<b><u>5,830</u></b>	<b><u>(2,523)</u></b>	

Goodwill can be specified as follows:

**Goodwill assigned to segment** in millions of EUR unless otherwise stated  
2013–2015

	Carrying value at January 1	Reclassification	Acquisitions	Purchase price allocation adjustment	Impairments	Divestments and transfers to assets classified as held for sale	Translation differences	Carrying value at December 31
<b>2015</b>								
BG Lamps	61	—	—	—	—	(1)	3	63
BG LED	33	(5)	—	—	—	—	—	28
BG Professional	1,470	(5)	—	8	—	—	153	1,626
BG Home	112	10	—	—	—	—	5	127
<b>Philips Lighting</b>	<b>1,676</b>	<b>—</b>	<b>—</b>	<b>8</b>	<b>—</b>	<b>(1)</b>	<b>161</b>	<b>1,844</b>
<b>2014</b>								
BG Lamps	56	—	—	—	—	—	5	61
BG LED	30	—	—	—	—	—	3	33
BG Professional	1,266	—	58	—	(2)	(12)	160	1,470
BG Home	106	—	—	—	—	—	6	112
<b>Philips Lighting</b>	<b>1,458</b>	<b>—</b>	<b>58</b>	<b>—</b>	<b>(2)</b>	<b>(12)</b>	<b>174</b>	<b>1,676</b>
<b>2013</b>								
BG Lamps	61	—	—	—	—	—	(5)	56
BG LED	33	—	—	—	—	—	(3)	30
BG Professional	1,337	—	—	(14)	—	—	(57)	1,266
BG Home	133	—	—	—	(26)	—	(1)	106
<b>Philips Lighting</b>	<b>1,564</b>	<b>—</b>	<b>—</b>	<b>(14)</b>	<b>(26)</b>	<b>—</b>	<b>(66)</b>	<b>1,458</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  
2013–2015

	2013	2014	2015
Netherlands	162	105	141
United States	1,944	2,020	2,159
China	126	126	116
Germany	77	67	8
India	30	31	29
Saudi Arabia	—	232	248
Other countries	721	723	633
<b>Tangible and intangible assets</b>	<b>3,060</b>	<b>3,304</b>	<b>3,334</b>

<sup>1</sup> Including goodwill

*Revised segment information corresponding to revised cost allocation approach*

Starting in 2016, Philips revised its approach of allocating overhead costs to its businesses. The following table presents the results by segment for the comparative periods consistent with the revised approach. This information is considered useful to users of the financial statements as it provides the segment results on a basis that is comparable to the approach that will be applied by the Philips Group from 2016 onwards.

**Revised information on income statement by segment** in millions of EUR unless otherwise stated  
2013—2015

	<u>Sales</u>	<u>Sales including intersegment</u>	<u>Income (loss) from operations</u>	<u>Income (loss) from operations as a % of sales</u>
<b>2015</b>				
BG Lamps	2,850	2,899	403	14%
BG LED	1,334	1,427	66	5%
BG Professional	2,757	2,775	14	1%
BG Home	515	519	(73)	(14%)
Others	9	9	(79)	— <sup>1</sup>
Intersegment elimination		(164)		
<b>Philips Lighting</b>	<b>7,465</b>	<b>7,465</b>	<b>331</b>	<b>4%</b>
<b>2014</b>				
BG Lamps	3,119	3,181	356	11%
BG LED	958	1,025	(62)	(6%)
BG Professional	2,420	2,433	(56)	(2%)
BG Home	482	485	(70)	(14%)
Others	2	2	(127)	— <sup>1</sup>
Intersegment elimination		(145)		
<b>Philips Lighting</b>	<b>6,981</b>	<b>6,981</b>	<b>41</b>	<b>1%</b>
<b>2013</b>				
BG Lamps	3,557	3,658	586	16%
BG LED	772	828	(20)	(2%)
BG Professional	2,308	2,337	(75)	(3%)
BG Home	490	492	(152)	(31%)
Others	2	2	(126)	— <sup>1</sup>
Intersegment elimination		(188)		
<b>Philips Lighting</b>	<b>7,129</b>	<b>7,129</b>	<b>213</b>	<b>3%</b>

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

## 2. Acquisitions and divestments

### *Acquisitions in 2015*

During 2015 Philips Lighting completed no major acquisitions.

During 2015 the purchase price accounting related to the GLC acquisition was finalized (see table below) and resulted in some changes in the other intangible assets, property, plant and equipment, working capital and the related effects in deferred tax liabilities, goodwill and non-controlling interest.

### *Acquisitions in 2014*

Philips Lighting completed one acquisition in 2014: General Lighting Company (GLC), domiciled in The Kingdom of Saudi Arabia (KSA). This acquisition enables Philips Lighting to grow its business in KSA, the largest economy in the Middle East by GDP, particularly in LED lighting. On 2 September 2014, Philips Lighting acquired 51% of GLC from a consortium of shareholders for a total amount of EUR 146 million (on a cash-free, debt-free basis). Taking into account closing conditions, Philips paid an amount of EUR 148 million. The overall cash position of GLC on the transaction date was EUR 23 million resulting in a net cash outflow related to this acquisition of EUR 125 million. Acquisition related costs that were recognized in general and administrative expenses amounted to EUR 4 million.

Subsequent to the acquisition, the existing Philips Lighting activities in KSA were combined with GLC. This combined entity was renamed Philips Lighting Saudi Arabia. Alliance Holding Ltd. is the company that holds a 49% non-controlling interest in Philips Lighting Saudi Arabia.

As of 2 September 2014, Philips Lighting Saudi Arabia is included as part of BG Professional within Philips Lighting. Based on the completed purchase price accounting, the consolidated balance sheet of GLC, immediately before and after the acquisition was as follows:

**Balance sheet GLC** in millions of EUR unless otherwise stated

	<u>Before acquisition date</u>	<u>After acquisition date</u>
Goodwill	—	66
Other intangible assets	—	148
Property, plant and equipment	18	22
Working capital	112	112
Provisions	(15)	(56)
Cash	23	23
<b>Total assets and liabilities</b>	<b><u>138</u></b>	<b><u>315</u></b>
Group equity	47	146
Non-controlling interests	—	78
Loans	91	91
<b>Financed by</b>	<b><u>138</u></b>	<b><u>315</u></b>

The goodwill is primarily related to the synergies expected to be achieved from integrating GLC in the Philips Lighting business. The goodwill is not tax deductible.

Other intangible assets at the acquisition date after completion of the purchase price accounting are comprised of the following:

**Other intangible assets GLC** in millions of EUR unless otherwise stated

	<u>Amount</u>	<u>Amortization period in years</u>
Order backlog	17	0.2
Brand name	60	20
Customer relationships	71	10
<b>Total other intangible assets</b>	<b><u>148</u></b>	<u>—</u>

In 2014, for the period from 2 September 2014 to 31 December 2014, Philips Lighting Saudi Arabia contributed sales of EUR 86 million and loss from operations of EUR 19 million mainly due to the amortization of other intangible assets.

*Divestments 2015*

During 2015 Philips Lighting had no major divestments.

*Divestments 2014*

During 2014, Philips Lighting disposed of Shakespeare Composite Structures Inc, which was a company that was part of the Professional segment. Total assets of Shakespeare had a book value of EUR 20 million, including EUR 5 million of goodwill and EUR 7 million of property, plant and equipment. A book gain of EUR 1 million was realized in this transaction.

**3. Interests in entities**

In this section we discuss the nature of, and risks associated with Philips Lighting's interests in its consolidated entities and associates, and the effects of those interests on Philips Lighting's financial position and financial performance. Interests in entities relate to:

- Interests in subsidiaries
- Investments in associates



### Wholly-owned subsidiaries

As per 31 December, 2015 the following 57 legal entities (2014: 60, 2013: 60 and 01-01-2013: 60) are dedicated Philips Lighting legal entities:

Legal entity name	Country	Statutory seat
Philips Algérie	Algeria	Hydra - Alger
WMGD Pty. Limited	Australia	New South Wales
Lighting Group PLI Holding	Belgium	Anderlecht
Philips Consumer Products	Belgium	Anderlecht
Helfont Participações Ltda.	Brazil	São Paulo
PHILIPS (B) SDN BHD	Brunei	Bandar Seri Begawar
Philips Lighting Luminaires (Shanghai) Co., Ltd.	China	Shanghai
Philips Consumer Luminaires (Shenzhen) Co., Ltd.	China	Shenzhen
Carex Lighting Equipment (Dongguan) Co., Ltd.	China	Dongguan
Philips Luminaires (Chengdu) Co., Ltd.	China	Chengdu
Philips Energy Saving Technology Services (Wuhan) Co., Ltd.	China	Wuhan
Philips Lighting Industry (China) Co., Ltd.	China	Yizheng
Philips Lighting Electronics (Xiamen) Co. Ltd.	China	Xiamen
Philips Electronics Technology (Shanghai) Co., Ltd.	China	Shanghai
Philips Consumer Luminaires Manufacturing (Shenzhen) Co. Ltd.	China	Shenzhen
Shanghai Li Yi Energy Saving Technology Co., Ltd	China	Shanghai
Philips Lighting Ecuador C.A.	Ecuador	Guayaquil
Philips Lighting Central America, Sociedad Anónima de Capital Variable	El Salvador	Olocuilta
Modular Lighting France	France	Paris
3E International, S.A.S.	France	Nancy
Compagnie Française Philips	France	Suresnes
Philips Lighting Hong Kong Limited	Hong Kong	Hong Kong
Framas Lightings Limited	Hong Kong	Hong Kong
Massive Asia Pacific Ltd.	Hong Kong	Hong Kong
Philips Entertainment Lighting Asia Limited	Hong Kong	Hong Kong
Philips Hengdian Lighting (HK) Holding Limited	Hong Kong	Hong Kong
Philips IPSC Tamasi Kft.	Hungary	Tamasi
Ilti Luce S.r.l.	Italia	Torino
Philips Lighting Italy S.p.A	Italia	Milaan
Philips Lighting Electromagnetics, S.A. de C.V.	Mexico	Chihuahua
Philips Lighting Electronics México, S.A. de C.V.	Mexico	Ciudad Juárez
Lumisistemas de México, S.A. de C.V.	Mexico	Mexico City
Philips Real Estate Services Mexico, S.A. de C.V.	Mexico	Mexico City
Lightolier de Mexico, S.A. de C.V.	Mexico	Chihuahua
Philips Holding México, S.A. de C.V.	Mexico	Huixquilucan
Philips Lighting B.V.	Netherlands	Eindhoven
Philips Lighting Holding B.V.	Netherlands	Eindhoven
Modular Lighting Nederland B.V.	Netherlands	Amsterdam
Philips Lighting Electronics Shanghai Holding B.V.	Netherlands	Eindhoven
Genlyte Holding C B.V.	Netherlands	Eindhoven
Genlyte Holding Canada B.V.	Netherlands	Eindhoven
Siera Electronics B.V.	Netherlands	Eindhoven
Dordtse Metaalindustrie “Johan de Witt” B.V.	Netherlands	Dordrecht
Philips Lighting Bielsko Sp.z.o.o.	Poland	Bielsko-biala
Philips Lighting Solutions (Pty) Ltd.	South Africa	Johannesburg
Philips Lighting Spain, S.L.	Spain	Madrid
Philips Indal, S.L.	Spain	Valladolid
Saeta die Casting, S.L.	Spain	Valladolid
Philips Lighting Sweden AB	Sweden	Stockholm
EBT Technology, Inc.	Taiwan	Kaohsiung
Philips Marketing et Services SARL	Tunisia	Tunis
Philips Lighting North America Corporation	United States	Delaware
The Genlyte Group Incorporated	United States	Delaware
Strand Lighting, LLC	United States	Delaware
Genlyte Thomas Group LLC	United States	Delaware
Lighting.Com., Inc.	United States	Delaware
Philips Lighting Switzerland AG	Switzerland	Zürich

### Investments in associates

Philips Lighting has investments in a number of associates, none of them are regarded as individually material. The associate entities develop, manufacture and sell lighting products.

**Investments in associates** in millions of EUR unless otherwise stated  
As of 31 December

	<u>Country</u>	<u>01-01-2013</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Zhejiang Yankon Lighting Co., Ltd	China	6	5	7	7
Dongyang Tospo Lighting Co., Ltd	China	6	5	7	6
Shenzhen Zhong Dian Sang Fei Intell. Light Co., Ltd	China	—	—	4	4
Roy Alpha, S.A.	Colombia	3	3	3	3
Lite-tech Industries LLC	United Arab Emirates	2	2	2	2
Assembléon	Netherlands	6	7	—	—
Elevite AG	Switzerland	2	2	—	—
Other investments		<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>
<b>Total</b>		<b><u>28</u></b>	<b><u>27</u></b>	<b><u>24</u></b>	<b><u>23</u></b>

### Not wholly-owned subsidiaries

In total, fourteen subsidiaries included in the Combined Financial Statements are not wholly-owned by Philips Lighting. Among these legal entities is Philips Lighting Saudi Arabia created after the acquisition of General Lighting Company (GLC) where Philips Lighting owns 51% of the voting power. GLC was acquired on 2 September 2014. Philips Lighting controls this entity. The sales of this entity are less than 4% of the combined financial data. The non-controlling interest of 49% represents an amount of EUR 103 million as per 31 December 2015 (2014: EUR 86 million). The non-controlling interest related to GLC at the acquisition date was measured at the holders' proportionate interest in the recognized amount of the identifiable net assets, which means that goodwill recognized by Philips Lighting in this transaction relates only to the 51% interest acquired.

## 4. Income from operations

For information related to sales and tangible and intangible assets on a geographic and / or segment basis, see note 1, Information by segment and main country.

### Sales and costs by nature

**Sales and costs by nature** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Sales</b>	<b>7,129</b>	<b>6,981</b>	<b>7,465</b>
Cost of Materials used	(3,031)	(3,003)	(3,289)
Employee benefit expenses	(2,058)	(2,138)	(2,165)
Depreciation and amortization	(308)	(290)	(298)
Shipping and handling	(287)	(264)	(261)
Advertising and Promotion	(179)	(188)	(184)
Lease expense	(148)	(128)	(116)
Other operational costs	(836)	(846)	(830)
Impairments	(82)	(91)	(17)
Other business income, net	<u>13</u>	<u>8</u>	<u>26</u>
<b>Income from operations</b>	<b><u>213</u></b>	<b><u>41</u></b>	<b><u>331</u></b>

The sales consist primarily of sales of goods (2015: 98%, 2014: 99% and 2013: 99%).

Cost of materials used represents the inventory recognized in cost of sales.

Shipping and handling costs are included in the cost of sales and selling expenses.

Advertising and promotion costs are included in selling expenses.

Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain among others expenses for outsourcing services, mainly in IT and HR, 3rd party workers, warranty, utilities and repair and maintenance for fixed assets.

Refer to note 7 for depreciation, amortization and impairment.

Philips Lighting has no external customer that represents 10% or more of sales. The amounts for sales to Philips Group companies and associates are provided in note 28, Related Party transactions.

## 5. Employee benefit expenses

Employee benefit expenses included in the Combined Statements of Income consist of the following:

**Employee benefit expenses by nature** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Salaries and wages	(1,165)	(1,177)	(1,261)
Social securities	(251)	(226)	(240)
Pension	(98)	(77)	(113)
Cost of termination plans	(36)	(189)	(55)
Temporary personnel	(221)	(205)	(190)
Share-based compensation	(27)	(22)	(24)
Other	(260)	(242)	(282)
<b>Total</b>	<b><u>(2,058)</u></b>	<b><u>(2,138)</u></b>	<b><u>(2,165)</u></b>

The employee benefit expenses relate to employees of Philips Lighting, with both permanent and temporary contracts. For further information on post-employment benefit costs, refer to note 19, Post-employment benefits. For further information on the remuneration of key management, refer to note 27, Key management compensation.

For further information on the share-based compensation, refer to note 29 Share-based compensation.

Other employee benefit expenses mainly relate to travel expenses, incentives and other personnel related costs.

Employee benefit expenses are presented in the Combined Statements of Income as follows:

**Employee benefit expenses by function** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Cost of sales	(705)	(764)	(684)
Selling expenses	(917)	(950)	(1,050)
General and administrative expenses	(160)	(146)	(149)
Research and development expenses	(276)	(278)	(282)
<b>Total</b>	<b><u>(2,058)</u></b>	<b><u>(2,138)</u></b>	<b><u>(2,165)</u></b>

## 6. Employees

Due to the nature of Combined Financial Statements the disclosure below reflects the best estimate of the number of employees that worked for Philips Lighting, either in the Philips Lighting Sector or the Lighting-related activities of the Philips IG&S Sector in 2013 and 2014. As per mid-2015, all employees within Philips have actually been allocated to either Philips Group or Philips Lighting.

The number of employees is summarized as follows:

<b>Employees in FTE</b> at year-end	<u>2013</u>	<u>2014</u>	<u>2015</u>
Lighting sector	38,671	37,808	33,618
Lighting related activities in IG&S sector	<u>3,721</u>	<u>3,826</u>	<u>3,781</u>
<b>Total</b>	<b><u>42,392</u></b>	<b><u>41,634</u></b>	<b><u>37,399</u></b>

Employees of Philips Lighting are expressed on a full-time equivalent (FTE) basis and correspond to the costs that are reflected in the employee benefit expenses table (note 5).

## 7. Depreciation, amortization and impairments

Depreciation of property, plant and equipment, amortization of intangible assets and impairments of non-financial assets, are as follows:

<b>Depreciation, amortization and impairments</b> in millions of EUR unless otherwise stated			
For the years ended 31 December			
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Depreciation of property, plant and equipment	(163)	(152)	(156)
Amortization of acquired intangible assets <sup>1</sup>	(109)	(106)	(107)
Amortization of non-acquired intangible assets <sup>2</sup>	<u>(36)</u>	<u>(32)</u>	<u>(35)</u>
<b>Depreciation and amortization</b>	<b>(308)</b>	<b>(290)</b>	<b>(298)</b>
Impairment of property, plant en equipment	(18)	(83)	(13)
Impairment of acquired intangible assets <sup>1</sup>	(32)	—	—
Impairment of non-acquired intangible assets <sup>2</sup>	(6)	(6)	(4)
Impairment of goodwill	<u>(26)</u>	<u>(2)</u>	<u>—</u>
<b>Impairments</b>	<b>(82)</b>	<b>(91)</b>	<b>(17)</b>
<b>Total</b>	<b>(390)</b>	<b>(381)</b>	<b>(315)</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.

Depreciation of property, plant and equipment is primarily included in cost of sales. Amortization of the categories of other intangible assets is reported in selling expenses for brand names and customer relationships and is reported in costs of sales for technology based and other intangible assets. Amortization of development costs is included in research and development expenses.

## 8. Income taxes

The income tax expense amounted to EUR 83 million (2014: EUR 66 million and 2013: EUR 45 million).

The components of income before taxes and income tax expense are as follows:

<b>Income tax expense</b> in millions of EUR unless otherwise stated			
2013-2015			
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Netherlands	(130)	164	136
Foreign	<u>342</u>	<u>(129)</u>	<u>187</u>
<b>Income before taxes</b>	<b>212</b>	<b>35</b>	<b>323</b>
Netherlands:			
Current tax benefit (expense)	—	(13)	(39)
Deferred tax benefit (expense)	<u>15</u>	<u>(43)</u>	<u>(6)</u>
<b>Total tax expense (Netherlands)</b>	<b>15</b>	<b>(56)</b>	<b>(45)</b>
Foreign:			
Current tax benefit (expense)	(116)	(111)	(91)
Deferred tax benefit (expense)	<u>56</u>	<u>101</u>	<u>53</u>
<b>Total tax expense (Foreign)</b>	<b>(60)</b>	<b>(10)</b>	<b>(38)</b>
<b>Income tax expense</b>	<b>(45)</b>	<b>(66)</b>	<b>(83)</b>

The components of income tax expense are as follows:

**Current tax expense** in millions of EUR unless otherwise stated  
2013—2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Current tax expense	(124)	(122)	(129)
Prior year benefit (expense)	<u>8</u>	<u>(2)</u>	<u>(1)</u>
<b>Current tax expense</b>	<b><u>(116)</u></b>	<b><u>(124)</u></b>	<b><u>(130)</u></b>

**Deferred income tax expense** in millions of EUR unless otherwise stated  
2013—2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Origination and reversal of temporary differences	16	60	31
Change in tax losses, tax credits and temporary differences recognized	35	(10)	17
Tax rate changes	—	1	—
Prior year benefit (expense)	<u>20</u>	<u>7</u>	<u>(1)</u>
<b>Deferred income tax expense</b>	<b><u>71</u></b>	<b><u>58</u></b>	<b><u>47</u></b>

Philips Lighting's operations are subject to income taxes in various foreign jurisdictions. The statutory income tax rates vary from 10.0% to 39.0%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25.0% (2014: 25.0% and 2013: 25.0%). A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

**Reconciliation of income tax charge** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>		<u>2014</u>		<u>2015</u>	
	<b>212</b>	<b>%</b>	<b>35</b>	<b>%</b>	<b>323</b>	<b>%</b>
<b>Income before taxes</b>						
Weighted average statutory income tax rate	(41)	(19%)	1	3%	(67)	(21%)
Non-deductible expenses	(31)	(15%)	(20)	(57%)	(27)	(8%)
Tax incentives and exempt income	17	8%	14	40%	89	28%
Deferred tax benefit (expense) related to recognition of deferred tax assets—net	(15)	(7%)	(46)	(131%)	(70)	(22%)
Changes in the liability for uncertain tax positions	(10)	(5%)	(14)	(40%)	(1)	(0%)
Prior year tax expense	28	13%	5	14%	(2)	(1%)
Other	<u>7</u>	<u>3%</u>	<u>(6)</u>	<u>(17%)</u>	<u>(5)</u>	<u>2%</u>
<b>Income tax expense recognised in Combined Statement of Income</b>	<b><u>(45)</u></b>	<b><u>(21%)</u></b>	<b><u>(66)</u></b>	<b><u>(189%)</u></b>	<b><u>(83)</u></b>	<b><u>(26%)</u></b>

The weighted average statutory income tax rate increased in 2015 compared to 2014 and decreased in 2014 compared to 2013, as a consequence of a significant change in the mix of profits and losses in the various countries.

The effective income tax rate is higher than the weighted average statutory income tax rate in 2015, 2014 and 2013, mainly due to the non-deductible expenses and deferred tax expense related to recognition of deferred tax assets which are partly offset by non-taxable income.



## Recognized deferred tax assets and liabilities

Net deferred tax assets relate to the following balance sheet captions and tax carryforwards (including tax credit carryforwards), of which the movements during the years 2015, 2014 and 2013 respectively are as follows:

**Deferred tax assets and liabilities** in millions of EUR unless otherwise stated  
2013—2015

	<u>assets</u>	<u>liabilities</u>	<u>net</u>
<b>2015</b>			
Intangible assets	25	(237)	(212)
Property, plant and equipment	10	(17)	(7)
Inventories	48	(1)	47
Prepaid pension cost	—	(2)	(2)
Other receivables and assets	17	—	17
Provisions for pensions and other postretirement	5	—	5
Provisions for termination benefits	39	—	39
Other provisions	69	(1)	68
Other liabilities	30	(6)	24
Deferred tax assets on tax loss carryforwards (including tax credit carryforwards)	154	—	154
<b>Total Allocations</b>	<b>397</b>	<b>(264)</b>	<b>133</b>
Set-off of deferred tax	(138)	138	—
<b>Net deferred tax assets</b>	<b>259</b>	<b>(126)</b>	<b>133</b>
<b>2014</b>			
Intangible assets	12	(250)	(238)
Property, plant and equipment	26	(26)	—
Inventories	43	(3)	40
Prepaid pension cost	—	—	—
Other receivables and assets	10	(2)	8
Provisions for pensions and other postretirement	7	—	7
Provisions for termination benefits	73	—	73
Other provisions	55	2	57
Other liabilities	37	(10)	27
Deferred tax assets on tax loss carryforwards (including tax credit carryforwards)	117	—	117
<b>Total Allocations</b>	<b>380</b>	<b>(289)</b>	<b>91</b>
Set-off of deferred tax	(139)	139	—
<b>Net deferred tax assets</b>	<b>241</b>	<b>(150)</b>	<b>91</b>
<b>2013</b>			
Intangible assets	16	(212)	(196)
Property, plant and equipment	19	(24)	(5)
Inventories	40	(3)	37
Prepaid pension cost	—	—	—
Other receivables and assets	7	(5)	2
Provisions for pensions and other postretirement	4	—	4
Provisions for termination benefits	43	—	43
Other provisions	45	(2)	43
Other liabilities	39	(8)	31
Deferred tax assets on tax loss carryforwards (including tax credit carryforwards)	121	—	121
<b>Total Allocations</b>	<b>334</b>	<b>(254)</b>	<b>80</b>
Set-off of deferred tax	(122)	122	—
<b>Net deferred tax assets</b>	<b>212</b>	<b>(132)</b>	<b>80</b>

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled

reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The net deferred tax assets of EUR 133 million (2014: EUR 91 million, 2013: EUR 80 million and 01-01-2013: EUR 30 million) consist of deferred tax assets of EUR 259 million (2014: EUR 241 million, 2013: EUR 212 million and 01-01-2013: EUR 185 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 126 million (2014: EUR 150 million, 2013: EUR 132 million and 01-01-2013: EUR 155 million) in countries with a net deferred tax liability position. An amount of EUR 150 million of deferred tax assets relates to several tax jurisdictions in which Philips Lighting has suffered a tax loss in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations of the carve-out group will generate sufficient taxable income to utilize these deferred tax assets.

Information regarding net operating loss carryforwards that will be retained by Philips Group and not transferred to Philips Lighting, as per legal separation, has not been provided as Philips Lighting does not believe that such information is meaningful. Net operating losses generated by Philips entities and not utilized by Philips Lighting will be retained by Philips Group. As such, net deferred tax assets recognized for operating losses calculated on a separate return basis, of EUR 22 million, EUR 63 million and EUR 44 million for the years ended 31 December 2015, 2014 and 2013, respectively, have been accounted for as business equity transactions with Philips Group.

At 31 December 2015, net operating loss carryforwards expire as follows:

<b>Expiry year operating loss carryforwards</b> in millions of EUR unless otherwise stated	
For the years ended 31 December	
	<u>2015</u>
2016	—
2017	1
2018	—
2019	138
2020	143
After 2020 but not unlimited	65
Unlimited	<u>648</u>

At 31 December 2015, the amount of operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet is EUR 510 million (2014: EUR 301 million).

Out of EUR 510 million, an amount of EUR 362 million should not be limited in time, EUR 135 million will expire by 2020 and the remaining EUR 13 million expires after 2020, but carryforward is limited in time.

At 31 December 2015, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 91 million (2014: EUR 128 million).

At 31 December 2015, there were no recognized deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain Philips Lighting foreign subsidiaries of Philips Holding USA because there is no intention to distribute these earnings in the foreseeable future. The temporary differences associated with the investments in subsidiaries of Philips Holding USA, for which a deferred tax liability has not been recognized, aggregate to EUR 38 million (2014: EUR 34 million).

Classification of the income tax payable and receivable is as follows:

<b>Income tax receivables and payables</b> in millions of EUR unless otherwise stated				
For the years ended 31 December				
	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Income tax receivable	9	7	8	25
Income tax payable	<u>(34)</u>	<u>(10)</u>	<u>(14)</u>	<u>(6)</u>

### *Tax risks*

Philips Lighting is exposed to tax uncertainties. These uncertainties include, amongst others, the following:

#### *Transfer pricing uncertainties*

Philips Lighting has issued transfer pricing directives, which are in accordance with international guidelines such as those of the Organization of Economic Co-operation and Development. As transfer pricing has cross-border effect, potential adjustments by local tax authorities on implemented transfer pricing procedures in a country may have an impact on the results in another country. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group tax and internal audit to safeguard the correct implementation of transfer pricing directives.

#### *Tax uncertainties on general and specific service agreements and licensing agreements*

Due to the centralization of certain activities in a limited number of countries (such as research and development, centralized IT, group functions and head office), costs are also centralized. As a consequence, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Philips Lighting entities. For that purpose, service contracts such as intragroup service agreements and licensing agreements are signed with a large number of Philips group entities. Tax authorities review these intra-group service and licensing agreements and may reject the implemented intragroup charges. Furthermore, buy in/out situations in the case of (de)mergers could affect the cost allocation resulting from the general service agreements between countries. The same applies to the specific service agreements.

#### *Tax uncertainties due to disentanglements and acquisitions*

When a subsidiary of Philips Lighting is disentangled, or a new company is acquired, related tax uncertainties may arise. Philips Lighting creates merger and acquisition (M&A) teams for these disentanglements or acquisitions. In addition to representatives from the involved business, these teams consist of specialists from various group functions and are formed, amongst other things, to identify hidden tax uncertainties that could subsequently surface when companies are acquired and to reduce tax claims related to disentangled entities. These tax uncertainties are investigated and assessed to mitigate tax uncertainties in the future to the extent possible. Examples of tax uncertainties are: applicability of the participation exemptions, allocation issues, and issues related to non-deductibility.

#### *Tax uncertainties due to permanent establishments*

In countries where Philips Lighting starts new operations or alters business models, the issue of permanent establishment may arise, because when operations in a country involve a Philips Lighting organization in another country, there is a risk that tax claims will arise in the former country as well as in the latter country.

## **9. Financial income and expenses**

Financial income and expenses include:

**Financial income and expenses** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Financial income</b>	<b>3</b>	<b>3</b>	<b>3</b>
Interest on pensions	(1)	(1)	(2)
Interest expense on tax balances	(1)	(4)	(1)
Impairment loss of financial assets	—	—	(4)
Other interest expense	(2)	(4)	(4)
<b>Financial expense</b>	<b>(4)</b>	<b>(9)</b>	<b>(11)</b>
<b>Total</b>	<b>(1)</b>	<b>(6)</b>	<b>(8)</b>

## 10. Assets classified as held for sale

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

	01-01-2013	31-12-2013	31-12-2014	31-12-2015
Assets classified as held for sale	—	15	20	34
Liabilities directly associated with assets held for sale	—	—	—	6

Assets classified as held for sale mainly relate to entities which are anticipated to be sold and their balances largely comprise of property, plant and equipment and production inventories. The liabilities directly associated with assets held for sale consists mainly of trade creditors.

## 11. Property, plant and equipment

The movements in property, plant and equipment are as follows:

Property, plant and equipment movement schedule in millions of EUR unless otherwise stated

	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress	Total
<b>Balance 1 January 2013</b>					
Cost	697	1,712	408	75	2,892
Accumulated depreciation	(341)	(1,327)	(317)	—	(1,985)
<b>Book value</b>	<b>356</b>	<b>385</b>	<b>91</b>	<b>75</b>	<b>907</b>
Change in book value:					
Capital expenditure	5	8	15	131	159
Asset available for use	37	37	19	(93)	—
Sales and disposals	—	(5)	—	(10)	(15)
Transfer to assets classified as held for sale	(8)	—	—	—	(8)
Depreciation	(31)	(95)	(37)	—	(163)
Impairments	(9)	(5)	(3)	(1)	(18)
Translation differences	(17)	(10)	(3)	(2)	(32)
<b>Total changes</b>	<b>(23)</b>	<b>(70)</b>	<b>(9)</b>	<b>25</b>	<b>(77)</b>
<b>Balance 31 December 2013</b>					
Cost	681	1,602	384	100	2,767
Accumulated depreciation	(348)	(1,287)	(302)	—	(1,937)
<b>Book value</b>	<b>333</b>	<b>315</b>	<b>82</b>	<b>100</b>	<b>830</b>
Change in book value:					
Capital expenditure	11	7	20	71	109
Asset available for use	25	73	13	(111)	—
Acquisition	7	5	4	2	18
Sales and disposals	(8)	(3)	(2)	(1)	(14)
Transfer to assets classified as held for sale	(20)	(6)	—	—	(26)
Depreciation	(35)	(80)	(37)	—	(152)
Impairments	(18)	(57)	(3)	(5)	(83)
Translation differences	23	13	4	—	40
<b>Total changes</b>	<b>(15)</b>	<b>(48)</b>	<b>(1)</b>	<b>(44)</b>	<b>(108)</b>
<b>Balance 31 December 2014</b>					
Cost	717	1,651	416	56	2,840
Accumulated depreciation	(399)	(1,384)	(335)	—	(2,118)
<b>Book value</b>	<b>318</b>	<b>267</b>	<b>81</b>	<b>56</b>	<b>722</b>

**Property, plant and equipment movement schedule** in millions of EUR unless otherwise stated

	<u>Land and buildings</u>	<u>Machinery and installations</u>	<u>Other equipment</u>	<u>Prepayments and construction in progress</u>	<u>Total</u>
Change in book value:					
Capital expenditure	4	7	9	78	98
Asset available for use	9	52	20	(81)	—
Acquisition	—	3	2	—	5
Sales and disposals	(11)	(7)	(2)	—	(20)
Transfer to assets classified as held for sale	(10)	(9)	(1)	(1)	(21)
Depreciation	(35)	(77)	(44)	—	(156)
Impairments	(6)	(7)	—	—	(13)
Translation differences	9	9	10	(9)	19
<b>Total changes</b>	<b>(40)</b>	<b>(29)</b>	<b>(6)</b>	<b>(13)</b>	<b>(88)</b>
<b>Balance 31 December 2015</b>					
Cost	643	1,543	391	43	2,620
Accumulated depreciation	(365)	(1,305)	(316)	—	(1,986)
<b>Book value</b>	<b>278</b>	<b>238</b>	<b>75</b>	<b>43</b>	<b>634</b>

Land with a book value of EUR 23 million is not depreciated (2014: EUR 29 million, 2013: EUR 42 million and 01-01-2013: EUR 49 million).

In 2014, management decided to divest the Organic light-emitted diode (OLED) activities to focus the business and resources on LED based connected systems and services. This decision resulted in an impairment of fixed assets of EUR 49m to reflect the estimated fair value less cost of disposal of these activities.

The expected useful lives of property, plant and equipment for 2015, 2014 and 2013 are as follows:

**Useful lives of property, plant and equipment** in years

Building	from 5 to 50
Machinery and installations	from 3 to 20
Other equipment	from 1 to 10

**12. Goodwill**

The movements in goodwill are as follows:

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance per 1 January</b>			
Cost	2,190	2,093	2,356
Amortization and impairments	(626)	(635)	(680)
<b>Book value</b>	<b>1,564</b>	<b>1,458</b>	<b>1,676</b>
Change in book value:			
Acquisitions	—	58	—
Divestments and transfers to assets classified as held for sale	—	(12)	(1)
Purchase price allocation adjustment	(14)	—	8
Impairments	(26)	(2)	—
Translation differences	(66)	174	161
Total changes	<b>(106)</b>	<b>218</b>	<b>168</b>
<b>Book value per 31 December</b>	<b>1,458</b>	<b>1,676</b>	<b>1,844</b>

The increase in 2015 of EUR 161 million in translation differences was mainly due to the increase in the USD/EUR rate which impacted the goodwill denominated in USD.

Acquisitions in 2014 includes goodwill related to the acquisition of General Lighting Company (GLC) for EUR 58 million. In 2014 the movement of EUR 174 million in translation differences is mainly explained by the increase of the USD/EUR rate which impacted the goodwill nominated 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. From 2015 the cash-generating units correspond to the operating segments.

Goodwill allocated to the cash-generating unit BG Professional (which includes the business previously reported under Professional Lighting Solutions) is considered to be significant in comparison to the total book value of goodwill of Philips Lighting at 31 December 2013, 31 December 2014 and 31 December 2015. The amounts associated as of 31 December 2013, 31 December 2014 and 31 December 2015, are presented below.

<b>Goodwill allocated to the cash-generating unit</b> in millions of EUR unless otherwise stated 2013—2015		<b>EUR million</b>
<u>BG Professional</u>		
2015		<u>1,626</u>
<u>Professional Lighting Solutions</u>		
2014		1,470
2013		<u>1,266</u>

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 and in the tests performed in the second half of 2015 the estimated recoverable amount of the cash-generating unit tested approximated or 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 2015 to 2019 that matches the period used for our strategic process. 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 is expected to increase over the projection period as a result of volume growth and cost efficiencies. In anticipation of the new reporting structure in 2016, the impact of an additional allocation of central overhead costs over the projection period has been considered for units which performed an updated test in the second half of 2015.

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

Cash flow projections of BG Professional for 2015 and Professional Lighting Solutions for 2013 and 2014 were based on the key assumptions included in the table below. For 2013 these assumptions are based on the annual impairment test performed in the second quarter. For 2014 and 2015 these assumptions were based on an updated test performed in Q4.

The key assumptions for the 2013/2014/2015 cash flow projections were as follows:

#### **Key assumptions** in % 2013—2015

	Compound sales growth rate <sup>1</sup>			pre-tax discount rates
	initial forecast period	extra polation period	used to calculate terminal value	
<u>BG Professional</u>				
2015	<u>5.0</u>	<u>5.1</u>	<u>2.7</u>	<u>15.1</u>
<u>Professional Lighting Solutions</u>				
2014	10.1	6.5	2.7	13.8
2013	<u>7.4</u>	<u>5.4</u>	<u>2.7</u>	<u>12.8</u>

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

Based on the test performed in Q4 2015, the headroom of Professional was estimated at EUR 100 million (2014: EUR 1,000 million and 2013: 670 million). The following changes could, individually, cause the value in use to fall to the level of the carrying value:

#### Sensitivity analysis

	<u>increase in pre-tax discount rate, basis points</u>	<u>decrease in compound long-term sales growth rate, basis points</u>	<u>decrease in terminal value amount, %</u>
<u>BG Professional</u>			
2015	<u>40</u>	<u>80</u>	<u>5.5</u>
<u>Professional Lighting Solutions</u>			
2014	400	1,030	47.0
2013	<u>290</u>	<u>520</u>	<u>39.0</u>

#### **Additional information 2015 in relation to cash-generating units to which a non-significant amount of goodwill is allocated**

In addition to the significant goodwill recorded at BG Professional as referred to above, BG Home is sensitive to fluctuations in the assumptions as set out above. Based on the most recent impairment test, it was noted that with regard to the headroom for the cash-generating unit BG Home (which includes the business previously reported under Consumer Luminaires) the estimated recoverable amount approximates the carrying value of this cash-generating unit. Consequently, any adverse change in key assumptions would, individually, cause an impairment loss to be recognized in relation to BG Home. The goodwill allocated to BG Home at 31 December 2015 amounts to EUR 127 million.

#### **Additional information 2014 in relation to cash-generating units to which a non-significant amount of goodwill is allocated**

In addition to the significant goodwill recorded at BG Professional as referred to above, Consumer Luminaires (which is now reported as part of BG Home) is sensitive to fluctuations in the assumptions as set out above. Based on the most recent impairment test, it was noted that with regard to the headroom for the cash generating unit Consumer Luminaires the estimated recoverable amount approximates the carrying value of this cash-generating unit. Consequently, any adverse change in key assumptions would, individually, cause an impairment loss to be recognized. The goodwill allocated to Consumer Luminaires at 31 December 2014 amounted to EUR 112 million.

#### **Impairment charge 2013**

In the fourth quarter of 2013, the updated impairment test for Consumer Luminaires (which is now reported as part of BG Home) resulted in EUR 26 million impairment of goodwill. This was mainly a consequence of a reduced growth rate due to slower anticipated recovery of certain markets and introduction delays of new product ranges. The pre-tax discount rate applied in the mentioned Q4 2013 test was 13.5%. The pre-tax discount rate applied in the 2013 annual impairment test was 13.4%. Compared to the previous impairment test there has been no change in the organization structure which impacts how goodwill is allocated to this cash-generating unit.

### 13 Intangible assets excluding goodwill

The movements in the intangible assets other than goodwill are as follows:

**Intangible assets movement schedule** in millions of EUR unless otherwise stated

	<u>Product development</u>	<u>Technology</u>	<u>Customer relationships</u>	<u>Other</u>	<u>Total</u>
<b>Balance 1 January 2013</b>					
Cost	192	306	1,053	349	1,900
Amortization and impairments	(140)	(158)	(426)	(228)	(952)
<b>Book value</b>	<b>52</b>	<b>148</b>	<b>627</b>	<b>121</b>	<b>948</b>
<i>Change in book value:</i>					
Additions	31	1	—	6	38
Amortization	(27)	(22)	(64)	(32)	(145)
Impairment	(6)	—	(32)	—	(38)
Translation differences	(1)	—	(26)	(4)	(31)
<b>Total changes</b>	<b>(3)</b>	<b>(21)</b>	<b>(122)</b>	<b>(30)</b>	<b>(176)</b>
<b>Balance 31 December 2013</b>					
Cost	187	299	1,005	308	1,799
Amortization and impairments	(138)	(172)	(500)	(217)	(1,027)
<b>Book value</b>	<b>49</b>	<b>127</b>	<b>505</b>	<b>91</b>	<b>772</b>
<i>Change in book value:</i>					
Additions	22	2	—	27	51
Amortization	(26)	(16)	(62)	(34)	(138)
Acquisition	—	—	84	74	158
Impairment	(6)	—	—	—	(6)
Translation differences	4	8	47	10	69
<b>Total changes</b>	<b>(6)</b>	<b>(6)</b>	<b>69</b>	<b>77</b>	<b>134</b>
<b>Balance 31 December 2014</b>					
Cost	201	321	1,172	426	2,120
Amortization and impairments	(158)	(200)	(598)	(258)	(1,214)
<b>Book value</b>	<b>43</b>	<b>121</b>	<b>574</b>	<b>168</b>	<b>906</b>
<i>Change in book value:</i>					
Additions	22	13	—	2	37
Amortization	(23)	(17)	(76)	(26)	(142)
Purchase price allocation adjustment	—	—	(13)	3	(10)
Impairment	(4)	—	—	—	(4)
Translation differences	3	6	49	11	69
<b>Total changes</b>	<b>(2)</b>	<b>2</b>	<b>(40)</b>	<b>(10)</b>	<b>(50)</b>
<b>Balance as of 31 December 2015</b>					
Cost	180	358	1,245	409	2,192
Amortization and impairments	(139)	(235)	(711)	(251)	(1,336)
<b>Book value</b>	<b>41</b>	<b>123</b>	<b>534</b>	<b>158</b>	<b>856</b>

Intangible assets other than goodwill mainly relate to balances identified and recorded as part of acquisitions in earlier years in BG Professional, consisting of brand names, technology and customer relationships.

The impairment in 2013 includes a charge of EUR 32 million for customer relationships in Consumer Luminaires. This is based on a trigger based test on specific mature markets following the initiated turnaround plan, reconsidering product ranges and growth rates. The basis of the recoverable amount used in this test is the value in use and a pre-tax discount rate of 11.4% is applied. After the impairment charge, the carrying value of the related intangible assets is zero.

The acquisitions in 2014 consist of the acquired intangible assets of General Lighting Company (GLC) for EUR 158 million. The amounts reflected as purchase price allocation adjustment in 2015 reflect the impact of the final purchase price allocation for GLC.

The amortization of intangible assets is specified in note 7.

Other intangible assets consists of:

**Other intangible assets** in millions of EUR unless otherwise stated

	<u>Gross</u>	<u>31-12-2014 Amortization and impairments</u>	<u>Gross</u>	<u>31-12-2015 Amortization and impairments</u>
Software	69	(38)	24	(7)
Brand names	333	(196)	357	(219)
Other	24	(24)	28	(25)
<b>Other Intangible fixed assets</b>	<b><u>426</u></b>	<b><u>(258)</u></b>	<b><u>409</u></b>	<b><u>(251)</u></b>

**Other intangible assets** in millions of EUR unless otherwise stated

	<u>Gross</u>	<u>01-01-2013 Amortization and impairments</u>	<u>Gross</u>	<u>31-12-2013 Amortization and impairments</u>
Software	75	(61)	45	(34)
Brand names	267	(160)	257	(177)
Other	7	(7)	6	(6)
<b>Other Intangible fixed assets</b>	<b><u>349</u></b>	<b><u>(228)</u></b>	<b><u>308</u></b>	<b><u>(217)</u></b>

The expected useful lives of intangible assets other than goodwill are as follows:

**Expected useful lives of intangible assets excluding goodwill**

in years

Product development	3-7
Software	1-10
Technology	3-20
Customer relations	2-25
Brand names	2-20
Licenses	term of the license
Other	<u>1-8</u>

There are no intangible assets with restricted title or pledged as security for liabilities.

## 14 Receivables

Receivables comprise:

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

	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Trade receivables (net)	<u>1,185</u>	<u>1,289</u>	<u>1,455</u>	<u>1,436</u>
<b>Accounts receivable—net</b>	<b><u>1,185</u></b>	<b><u>1,289</u></b>	<b><u>1,455</u></b>	<b><u>1,436</u></b>

The ageing of trade receivables, representing current and overdue but not impaired receivables, is as follows:

**Ageing analysis** in millions of EUR unless otherwise stated

	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Current	1,075	1,135	1,221	1,258
Overdue 1-30 days	52	44	57	49
Overdue 31-180 days	46	91	108	80
Overdue >180 days	12	19	69	49
<b>Accounts receivable—net</b>	<b><u>1,185</u></b>	<b><u>1,289</u></b>	<b><u>1,455</u></b>	<b><u>1,436</u></b>

The changes in the allowance for doubtful accounts receivable are as follows:

**Allowance for doubtful accounts movement** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>(35)</b>	<b>(38)</b>	<b>(73)</b>
Additions charged to expense	(8)	(33)	(33)
Utilizations	<u>5</u>	<u>(2)</u>	<u>(4)</u>
<b>Balance 31 December</b>	<b><u>(38)</u></b>	<b><u>(73)</u></b>	<b><u>(110)</u></b>

The allowance for doubtful accounts has been primarily established for receivables that are past due. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. No receivables have been pledged as security for monies borrowed.

Trade receivables that are impaired are fully provided for. Included in the above balances as per 31 December, 2015 are allowances for individually impaired receivables of EUR 103 million (2014: EUR 63 million, 2013: EUR 28 million).

Bad debt expenses are recorded as part of selling expenses. Reference is made to note 30 for more background on credit risk management.

## 15 Inventories

Inventories are summarized as follows:

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

	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Raw materials	306	279	293	294
Work in progress	23	16	18	27
Finished goods	<u>625</u>	<u>688</u>	<u>685</u>	<u>667</u>
<b>Total</b>	<b><u>954</u></b>	<b><u>983</u></b>	<b><u>996</u></b>	<b><u>988</u></b>

The write-down of inventories to realizable value amounted to EUR 36 million for the year ended 31 December 2015 (2014: EUR 53 million, 2013: EUR 50 million). The write-down is included in cost of sales.

## 16 Other current assets

Other current assets are analyzed as follows:

**Other current assets** in millions of EUR unless otherwise stated

	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Current financial assets	—	2	—	—
Prepayments and accrued income, excluding prepaid pension assets	<u>51</u>	<u>50</u>	<u>65</u>	<u>46</u>
<b>Total</b>	<b><u>51</u></b>	<b><u>52</u></b>	<b><u>65</u></b>	<b><u>46</u></b>

## 17 Cash and cash equivalents

**Cash and cash equivalents** in millions of EUR unless otherwise stated

	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Cash at banks and in hand	55	48	68	71
Short-term deposits (cash equivalents)	—	1	5	4
Other liquid assets	<u>3</u>	<u>—</u>	<u>2</u>	<u>8</u>
<b>Cash and cash equivalents</b>	<b><u>58</u></b>	<b><u>49</u></b>	<b><u>75</u></b>	<b><u>83</u></b>

Cash and cash equivalents reflect amounts held in separate dedicated Philips Lighting legal entities.

Philips Group pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for local operational or investment needs. As per 31 December 2015 approximately EUR 22 million (2014: EUR 24 million) of cash held and short term deposits is held by General Lighting Company (GLC).



## 18 Provisions

Provisions can be analyzed as follows:

<b>Provisions</b> in millions of EUR unless otherwise stated	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Provision for defined benefits (see note 19)	23	23	40	43
Restructuring related provisions	235	140	235	178
Environmental provisions	175	168	170	163
Product warranty	69	67	66	60
Onerous contract provision	70	46	37	31
Other long-term employee benefit provisions	28	26	26	25
Other provisions	112	105	127	113
<b>Total</b>	<b><u>712</u></b>	<b><u>575</u></b>	<b><u>701</u></b>	<b><u>613</u></b>
<b>Of which:</b>				
Short-term provisions	243	227	240	263
Long-term provisions	469	348	461	350
<b>Total</b>	<b><u>712</u></b>	<b><u>575</u></b>	<b><u>701</u></b>	<b><u>613</u></b>

### *Restructuring-related provisions*

The most significant restructuring projects were mainly related to the manufacturing footprint rationalization projects.

**Restructuring-related provision** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>235</b>	<b>140</b>	<b>235</b>
Additions	66	202	88
Utilizations	(134)	(91)	(120)
Releases	(25)	(17)	(25)
Currency translations and other movements	(2)	1	—
<b>Balance 31 December</b>	<b><u>140</u></b>	<b><u>235</u></b>	<b><u>178</u></b>

Philips Lighting expects the provision will be utilized mainly within the next year.

### *Environmental provisions*

The movement in environmental provisions during the years presented is as follows:

**Environmental provisions** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>175</b>	<b>168</b>	<b>170</b>
Additions	16	8	10
Utilizations	(6)	(9)	(14)
Reclassifications	—	—	(1)
Releases	(1)	(12)	(13)
Change in discount rate	(2)	5	(3)
Accretion	(1)	2	6
Currency translations and other movements	(13)	9	8
<b>Balance 31 December</b>	<b><u>168</u></b>	<b><u>170</u></b>	<b><u>163</u></b>

The environmental provisions include accrued losses recorded with respect to environmental remediation in various countries.

Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities as well as changes in judgements and discount rates. Also refer to note 26, Contingent liabilities.

Approximately half of this provision is expected to be utilized within the next five years. The remaining portion relates to longer-term remediation activities.

*Product warranty*

**Product warranty** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>69</b>	<b>67</b>	<b>66</b>
Additions	49	36	37
Utilizations	(48)	(41)	(45)
Reclassifications	1	—	—
Currency translations and other movements	(4)	4	2
<b>Balance 31 December</b>	<b><u>67</u></b>	<b><u>66</u></b>	<b><u>60</u></b>

The provision for product warranty reflects the estimated costs of replacement and free-of-charge services that will be incurred by Philips Lighting with respect to products sold. Philips Lighting expects the provision will be utilized mainly within the next year.

*Onerous contract provision*

**Onerous contract provision** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>70</b>	<b>46</b>	<b>37</b>
Additions	12	21	6
Utilizations	(35)	(31)	(11)
Currency translations and other movements	(1)	1	(1)
<b>Balance 31 December</b>	<b><u>46</u></b>	<b><u>37</u></b>	<b><u>31</u></b>

*Other long-term employee benefit provisions*

**Other long-term employee benefit provisions** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>28</b>	<b>26</b>	<b>26</b>
Additions	3	2	3
Utilizations	(5)	(3)	(5)
Reclassifications	—	1	—
Currency translations and other movements	—	—	1
<b>Balance 31 December</b>	<b><u>26</u></b>	<b><u>26</u></b>	<b><u>25</u></b>

*Other provisions*

Other provisions mainly comprise of provisions for legal claims, decommissioning and self-insurance. Provisions for legal claims mainly relate to the labor related litigation referred to in note 26, Contingent liabilities.

**Other provisions** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>112</b>	<b>105</b>	<b>127</b>
Additions	40	56	31
Utilizations	(22)	(28)	(45)
Reclassifications	5	2	4
Releases	(24)	(11)	(7)
Change in discount rate	—	—	—
Accretion	—	—	—
Currency translations and other movements	(6)	3	3
<b>Balance 31 December</b>	<b><u>105</u></b>	<b><u>127</u></b>	<b><u>113</u></b>

## 19 Post-employment benefits

Philips Lighting employees take part in post-employment benefit plans in various countries. These post-employment plans have been established in accordance with the legal requirements, customs and the local practice in the countries involved.

The following type of post-employment benefit plans exist:

1. Royal Philips Group Defined Benefit (DB) plans
2. Royal Philips Group Defined Contribution (DC) plans
3. Philips Lighting DB plans

Most employees that take part in a post-employment benefit plan are covered by DC plans.

### *Group Defined Benefit plans*

Group DB plans are accounted for in accordance the Philips Group policy for charging pension costs to the participating entities. The service cost in Group DB plans are allocated to the participating companies, including Philips Lighting.

Philips Group is the sponsor of Group DB plans that are externally funded. The net liabilities of these Group DB Plans are recognized at the parent company (Philips Group) level only, and not included in the accompanying Combined Financial Statements.

For Group DB plans that are not externally funded, but for which Philips Lighting has the obligation to settle the post-employment benefit, the related liability is included in the Combined Balance Sheets under Provisions (see Note 18, Provisions).

Cash contributions to externally funded plans occur at the Philips Lighting parent level and no further cash of the participating Lighting companies is requested other than their share in the cost.

For additional information of Royal Philips Group DB plans refer to the 2015 Annual Report of the Philips Group (note 20).

### *Group Defined Contributions plans*

The contributions made in a Group DC plan are allocated to the participating companies for the respective employees of Philips Lighting.

### *Philips Lighting Defined Benefit plans*

The only Philips Lighting DB plan is the mandatory end-of-service benefit of the GLC joint venture in Saudi Arabia, in which Philips Lighting holds a 51% interest, which has no external funding. The liability of such a plan equals the defined benefit obligation (DBO) as determined under the guidance of IAS 19 and as calculated by a local actuary. The liability is included in the Combined Balance Sheets under provisions.

The overview of the balance sheet positions in Philips Lighting is as follows:

**Defined Benefit Obligation (DBO)** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Balance 1 January</b>	<b>(23)</b>	<b>(23)</b>	<b>(40)</b>
Acquisitions	—	(17)	—
Miscellaneous	—	—	(3)
<b>Balance 31 December</b>	<b>(23)</b>	<b>(40)</b>	<b>(43)</b>
Funded status	(23)	(40)	(43)
<b>Net balance sheet position</b>	<b>(23)</b>	<b>(40)</b>	<b>(43)</b>

The increase of the pension liability in 2014 by EUR 17 million mainly relates to the acquisition of the GLC joint venture in Saudi Arabia.

Given its immaterial size to Philips Lighting as a whole, no full IAS 19 disclosures have been included for the GLC joint venture plan.

The post-employment benefit costs included in the financial statements are:

<b>Cost of Post-employment benefit plans</b> in millions of EUR unless otherwise stated			
For the years ended 31 December			
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Interest expense of Defined Benefit plan in Financial expense	1	1	1
<b>Cost of Post-employment benefit plans</b> in millions of EUR unless otherwise stated			
For the years ended 31 December			
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Service cost of Defined Benefit plans	66	43	38
Contribution to Defined Contribution plans (employer part)	32	34	74
<b>Total</b>	<b><u>98</u></b>	<b><u>77</u></b>	<b><u>112</u></b>

The above defined benefit service cost of 2013 includes a past service cost gain of EUR 12 million related to the announcement made in 2013 to freeze the US DB Pension plan per January 2016 for the members still accruing in this plan.

The 2014 defined benefit service cost includes a past service cost gain of EUR 22 million due to a mandatory plan change per January 2015 in the Netherlands where the government introduced a maximum pension giving salary of EUR 100 thousand. Employees impacted receive an allowance in their salary starting 2015 which they can use for a net pension plan with an external provider.

As per May 2015 the Dutch pension plan is accounted for as a defined contribution plan which explains the lower 2015 service costs for defined benefit plans and higher defined contribution costs.

#### *Risks related to defined benefit plans*

The above DB plans expose Philips Lighting to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk. The Pension fund Trustees are responsible for and have full discretion over the investment strategy of the plan assets. In general, the Trustees manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

#### *Cash flows and costs in 2016*

Philips Lighting expects cash outflows in relation to post-employment benefits which are estimated to amount EUR 196 million in 2016, consisting of:

- EUR 49 million employer contributions to defined benefit pension plans;
- EUR 106 million employer contributions to defined contribution pension plans;
- EUR 32 million expected cash outflows in relation to unfunded pension plans; and
- EUR 9 million in relation to unfunded retiree medical plans.

The EUR 49 million for DB plans relate mainly to the US plan. For the funding of the deficit in the US plan Philips Group adheres to the minimum funding requirements of the US Pension Protection Act.

The service and administration cost for 2016 is expected to amount to EUR 9 million for pension plans and EUR 1 million for retiree medical plans. The interest expense for 2016 is expected to amount to EUR 14 million for pension plans and EUR 5 million for retiree medical plans. The cost for defined contribution plans is expected to be EUR 106 million.

#### **Corresponding pension liabilities assumed as part of the legal separation on 1 February 2016**

Philips Lighting assumed liabilities from Philips Group as part of the legal separation, including pension obligations relating to Group DB plans. These pension obligations are not reflected in the Combined Financial Statements of Philips Lighting as the legal obligation did not exist prior to the date of separation.

As stated in note 32, on February 1, 2016 Philips Lighting assumed additional net pension liabilities of approximately EUR 607 million as part of the separation.

The following table provides a summary of the corresponding extra amounts of the assumed net pension obligations for the periods prior to separation date. The amounts represent the net defined benefit liability determined under IAS 19, and are not included in the accompanying Combined Balance Sheets.

<b>Net balance of defined-benefit pension plans</b> in millions of EUR unless otherwise stated	in millions of EUR unless otherwise stated			
	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Accrued pension costs under other liabilities	(193)	(136)	(164)	(224)
Provision for defined benefits	(352)	(252)	(287)	(271)
Provisions for other post-employment benefits	—	(61)	(73)	(112)
<b>Net balance of defined-benefit plans</b>	<b><u>(545)</u></b>	<b><u>(449)</u></b>	<b><u>(524)</u></b>	<b><u>(607)</u></b>

## 20 Other current and accrued liabilities

Other current and accrued liabilities are summarized as follows:

<b>Other payables and accrued liabilities</b> in millions of EUR unless otherwise stated	in millions of EUR unless otherwise stated			
	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
<b>Other current liabilities</b>				
Accrued customer rebates that cannot be offset				
with accounts receivables for those customers	177	199	201	189
Advances received from customers on orders not covered by work in process	3	11	22	31
Other taxes including social security premiums	29	51	39	50
Other liabilities	<u>56</u>	<u>32</u>	<u>28</u>	<u>42</u>
<b>Total</b>	<b><u>265</u></b>	<b><u>293</u></b>	<b><u>290</u></b>	<b><u>312</u></b>
<b>Accrued liabilities</b>				
Personnel related costs:				
Salaries and wages	139	142	127	130
Accrued holiday entitlements	51	50	50	46
Other personnel related costs	36	32	24	21
Fixed asset related costs:				
Gas, water, electricity, rent and other	18	16	16	17
Communication and IT costs	2	13	17	13
Distribution costs	34	34	51	45
Sales related costs:				
Commissions payable	16	11	10	11
Advertising and marketing related costs	21	21	21	19
Other sales related costs	20	17	2	13
Material related costs	25	14	16	23
Deferred Income	16	13	30	47
Other accrued liabilities	<u>113</u>	<u>96</u>	<u>83</u>	<u>74</u>
<b>Total</b>	<b><u>491</u></b>	<b><u>459</u></b>	<b><u>447</u></b>	<b><u>459</u></b>

## 21 Other non-current liabilities

Other non-current liabilities are summarized as follows:

<b>Other non-current liabilities</b> in millions of EUR unless otherwise stated	in millions of EUR unless otherwise stated			
	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Deferred income	31	29	24	22
Other tax liabilities	98	108	126	131
Other liabilities	<u>11</u>	<u>8</u>	<u>8</u>	<u>6</u>
<b>Other non-current liabilities</b>	<b><u>140</u></b>	<b><u>145</u></b>	<b><u>158</u></b>	<b><u>159</u></b>



For further details on tax related liabilities refer to note 8, Income taxes.

## 22 Debt

Short-term and long-term debt relates to financing by local banks and financial institutions. EUR 77 million out of the total EUR 88 million (2014: EUR 81 million out of resp. EUR 90 million) of debt relates to a loan taken out by GLC in Saudi Arabia. The total current GLC debt position matures within one year for an amount of EUR 77 million (2014: EUR 49 million). The fair value of this loan equals its book value. The long-term part is valued according to level 2 techniques whereas for the short term portion no valuation techniques are used.

## 23 Owner's net investment

Philips Lighting operated and was managed as part of the Philips Group during the periods presented.

The Owner's net investment reflects the net funding position between Philips Lighting and Philips Group. The Owner's net investment comprises currency translation differences, hedging reserve, reserve relating to share-based compensation, result for the period and owner's funding. The Owner's net investment shows the following movements during the periods presented:

**Owner's net investment in business equity** in millions of EUR unless otherwise stated

	<u>Currency translation differences</u>	<u>Cash flow hedges</u>	<u>Result for the period</u>	<u>Funding by Philips</u>	<u>Owner's net investment</u>
<b>Balance 1 January 2013</b>	—	—	—	<b>3,288</b>	<b>3,288</b>
Currency translation adjustment	(94)	—	—	—	(94)
Movement in hedging reserve	—	(2)	—	—	(2)
Other comprehensive income	(94)	(2)	—	—	(96)
Result for the year	—	—	168	—	168
Total comprehensive income	(94)	(2)	168	—	72
Share-based compensation	—	—	—	27	27
Movement in funding	—	—	—	(90)	(90)
Movement in non-controlling interests	—	—	—	—	—
<b>Balance 31 December 2013</b>	<b>(94)</b>	<b>(2)</b>	<b>168</b>	<b>3,225</b>	<b>3,297</b>
<b>Balance 1 January 2014</b>	<b>(94)</b>	<b>(2)</b>	<b>168</b>	<b>3,225</b>	<b>3,297</b>
Currency translation adjustment	172	—	—	—	172
Movement in hedging reserve	—	1	—	—	1
Other comprehensive income	172	1	—	—	173
Result for the year	—	—	(22)	—	(22)
Total comprehensive income	172	1	(22)	—	151
Share-based compensation	—	—	—	22	22
Movement in funding	—	—	—	25	25
Movement in non-controlling interests	—	—	—	—	—
Transfer of previous year's result	—	—	(168)	168	—
<b>Balance 31 December 2014</b>	<b>78</b>	<b>(1)</b>	<b>(22)</b>	<b>3,440</b>	<b>3,495</b>
<b>Balance 1 January 2015</b>	<b>78</b>	<b>(1)</b>	<b>(22)</b>	<b>3,440</b>	<b>3,495</b>
Currency translation adjustment	49	—	—	—	49
Movement in hedging reserve	—	3	—	—	3
Other comprehensive income	49	3	—	—	52
Result for the year	—	—	226	—	226
Total comprehensive income	49	3	226	—	278
Share-based compensation	—	—	—	24	24
Movement in funding	—	—	—	(284)	(284)
Movement in non-controlling interests	—	—	—	—	—
Transfer of previous year's result	—	—	22	(22)	—
<b>Balance 31 December 2015</b>	<b>127</b>	<b>2</b>	<b>226</b>	<b>3,158</b>	<b>3,513</b>

## Objectives, policies and processes for managing capital

As Philips Lighting did not have a separate capital structure prior to the legal separation, the objectives for capital management are met in conjunction with the overall Philips Group capital management objectives.

Philips Group manages capital based upon the measures net operating capital (NOC), net debt and cash flows before financing activities. These measures are used by Philips Group to evaluate the capital efficiency of the Philips Group and its operating sectors, including Philips Lighting. NOC is defined as: total assets excluding assets classified as held for sale less: (a) cash and cash equivalents, (b) deferred tax assets, (c) other non-current financial assets and current financial assets, (d) investments in associates, and after deduction of: (e) long-term provisions and short-term provisions, (f) accounts and notes payable, (g) accrued liabilities, (h) income tax payable, (i) non-current derivative financial liabilities and derivative financial liabilities and (j) other non-current liabilities and other current liabilities. Net debt is defined as the sum of long- and short-term debt minus cash and cash equivalents. Cash flows before financing activities consist of cash flows from operating activities and cash flows from investing activities.

### 24 Contractual obligations

The following table presents the contractual cash obligations of the Group as of 31 December 2015. Off-balance sheet commitments relate to purchase obligations and operating lease obligations.

**Contractual cash obligations<sup>1</sup>** in millions of EUR unless otherwise stated  
As of 31 December 2015

	Payments due by period				
	Total	less than 1 year	1-3 years	3-5 years	after 5 years
Long-term debt <sup>2</sup>	47	45	—	—	2
Short-term debt	41	41	—	—	—
Operating lease obligations	284	79	82	57	66
Derivative liabilities	7	7	—	—	—
Interest on debt	2	2	—	—	—
Purchase obligations	56	26	20	7	3
Trade payables	940	940	—	—	—
<b>Contractual cash obligations</b>	<b>1,377</b>	<b>1,140</b>	<b>102</b>	<b>64</b>	<b>71</b>

<sup>1</sup> Obligations in this table are undiscounted

<sup>2</sup> Long-term debt includes short-term portion of debt

The operating lease obligations are mainly related to the rental of buildings. A number of these leases originate from sale-and-leaseback arrangements. Operating lease payments under sale-and-leaseback arrangements for 2015 totaled EUR 13 million (2014: EUR 13 million and 2013: EUR 13 million)

The remaining payments under sale-and-leaseback arrangements included in operating lease obligations above are as follows:

#### Operating lease - minimum payments under sale-and-leaseback arrangements

in millions of EUR unless otherwise stated

	As of 31 December 2015
2016	11
2017	11
2018	12
2019	10
2020	10
Thereafter	34

## 25 Government grants

The Combined Statements of Income include EUR 14 million of government grants (2014: EUR 12 million, 2013: EUR 22 million). These grants are recognized in the Combined Statements of Income, net of related expenses.

The split per country is as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Government grants</b> in millions of EUR unless otherwise stated For the years ended 31 December			
Netherlands	7	6	6
China	5	3	5
Belgium	2	2	2
France	2	1	1
Germany	5	—	—
Other countries	1	—	—
<b>Total</b>	<u>22</u>	<u>12</u>	<u>14</u>

A number of subsidies have been awarded based on future criteria to be met.

## 26 Contingent liabilities

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. At the end of 2015, the total fair value of guarantees recognized on the Combined Balance Sheet amounted to EUR nil million (2014: EUR nil million, 2013: EUR nil million and 01-01-2013: EUR nil million). Remaining off-balance-sheet business and credit-related guarantees provided on behalf of third parties and associates as per 31 December, 2015 amounted EUR 8 million (2014: EUR 9 million, 2013: EUR 11 million and 01-01-2013: EUR 12 million).

### *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 certain chemicals on the environment.

### *Legal proceedings*

Philips Lighting is involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to such matters as competition issues, commercial transactions, product liability, participations and environmental pollution.

While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, Philips Lighting is of the opinion that the proceedings may have a significant impact on Philips Lighting's Combined Balance Sheet, results of operations and combined cash flows.

In respect of labor related litigation, Philips Lighting is involved in several proceedings relating to former employees. These proceedings consist of individual claims in various jurisdictions and a collective claim before a federal public prosecutor in South America. The collective action was settled in April 2015 and Philips Lighting is currently involved in the final assessment of potential beneficiaries of the settlement, which is expected in 2016. The remaining individual claims are assessed on a case by case basis and are in various phases of litigation. Please also refer to note 18, Provisions.

## 27 Key management compensation

The aggregate amounts of remuneration of key management personnel, comprising the CEO, CFO and the BG leaders, during the relevant periods are as follows:

<b>Key management compensation</b> in millions of EUR unless otherwise stated	2013 - 2015		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
Salary	2	3	3
Annual incentive <sup>1</sup>	1	1	1
Long-Term incentive <sup>2</sup>	2	2	2
Pension allowance	—	—	1
Pension costs	1	1	—
Other compensation <sup>3</sup>	—	—	—
<b>Total</b>	<u><b>6</b></u>	<u><b>7</b></u>	<u><b>7</b></u>

<sup>1</sup> The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.

<sup>2</sup> Costs of performance shares, stock options and restricted share rights are based on accounting standards (IFRS) and do not reflect the value of stock options at the end of the lock up period and value of performance shares and restricted share rights at the vesting/release date. Costs for the Accelerate! grant are included in 2013.

<sup>3</sup> The stated amounts mainly concern (share of) allowances to directors that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. The amount for other compensation is less than EUR 1 million.

As Philips Lighting did not operate as a stand-alone public company during the historical periods, the amounts presented above are not necessarily indicative of the compensation of key management in future periods.

## 28 Related party transactions

In the normal course of business, Philips Lighting purchases and sells goods and services from/to various parties in which Philips 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 Combined Financial Statements include transactions with Philips Group and its group companies that are outside of Philips Lighting. Philips Group is a related party as it controlled Philips Lighting during the periods presented.

### *Philips Group transactions*

Philips Lighting entered into transactions with other Philips Group businesses for the sale of goods as well as the purchase of corporate and other infrastructure services provided by the other Philips businesses. In addition Philips Lighting business source part of their materials for production from other Philips businesses. These transactions are generally conducted with terms comparable to those with third parties. Corporate recharges reflect the allocation of costs to Philips Lighting of the Philips Group central service organization and the Philips Group country organizations. This allocation in the periods presented was based on both actual services and activities purchased and the relative sales share of Philips Lighting.

An overview of related party transactions with other Philips Group units and associates is as follows:

<b>Related party transactions</b> in millions of EUR unless otherwise stated For the years ended 31 December	<u>2013</u>	<u>2014</u>	<u>2015</u>
	Sales to Philips Group	49	44
Sales to associates	51	22	30
Purchases from Philips Group	(123)	(156)	(214)
Purchases from associates	(23)	(14)	(18)
Deferred tax assets retained by Philips	44	63	22
Movement in funding from / (to) Philips Group	<u>(90)</u>	<u>25</u>	<u>(284)</u>

For employee benefit plans see note 19, Post-employments benefits. For deferred tax assets refer to note 8, Income taxes. For key management compensation see note 27.

An overview of balance sheet positions with other Philips Group units and affiliates is as follows:

**Related party balances** in millions of EUR unless otherwise stated  
For the years ended 31 December

	<u>01-01-2013</u>	<u>31-12-2013</u>	<u>31-12-2014</u>	<u>31-12-2015</u>
Accounts receivable - Philips Group	2	13	3	83
Accounts payable - Philips Group	(11)	(20)	(37)	(111)
Accounts receivable - associates	—	17	1	5
Accounts payable - associates	—	—	—	(1)
Receivable / (payable) balance	(9)	10	(33)	(24)
Funding from Philips Group	<u>(3,288)</u>	<u>(3,225)</u>	<u>(3,440)</u>	<u>(3,158)</u>

The funding from Philips Group is further specified in note 23, Owner's net investment.

## 29 Share-based compensation

The share-based compensation plans relate to shares of Royal Philips as historically Philips Lighting did not have its own share capital.

The purpose of the share-based compensation plans is to align the interests of Philips Lighting management with those of shareholders of Philips Group by providing incentives to improve Philips performance on a long-term basis, thereby increasing shareholder value.

Philips Group has the following plans:

- Performance shares: rights to receive common shares in the future based on performance and service conditions;
- Restricted shares: rights to receive common shares in the future based on a service condition;
- Options on its common shares, including the 2012 and 2013 Accelerate! grant.

Since 2013 executives and certain selected employees of Philips Lighting are granted performance shares. Restricted shares are granted only to new employees or certain selected employees of Philips Lighting. Prior to 2013 restricted shares and options were granted to executives and certain selected employees of Philips Lighting. Under the terms of employee stock purchase plans established by Philips Group in various countries, employees are eligible to purchase a limited number of Philips shares at discounted prices through payroll withholdings.

Furthermore, as part of the Accelerate! program, Philips Group has granted options (Accelerate! options) and restricted shares (Accelerate! shares). These Accelerate! options and shares were granted to a group of approximately 200 key employees of Philips Lighting. On 28 January, 2014 the Supervisory Board of Philips Group resolved that all performance targets under the Accelerate! program, which were based on the 2013 mid-term financial targets, have been met. Accelerate! shares fully vested at 31 December, 2013.

Under the terms of employee stock purchase plans established by the company in various countries employees are eligible to purchase a limited number of the company's shares at discounted prices through payroll withholdings.

Philips Lighting's share-based compensation costs were EUR 24 million (2014: EUR 22 million, 2013: EUR 27 million). The amount recognized as an expense is adjusted for forfeiture. USD-denominated performance shares, restricted shares and options are granted to employees in the United States only.

### *Performance shares*

The performance is measured over a three-year performance period. The performance shares have two performance conditions, relative Total Shareholders' Return of the Philips Group compared to a peer group of 21 companies and adjusted Earnings per Share growth of the Philips Group. The performance shares vest three years after the grant date. The number of performance shares that will vest is dependent on achieving the two performance conditions, which are equally weighted, and provided that the grantee is still employed with Philips Group.



The amount recognized as an expense is adjusted for actual performance of adjusted Earnings per Share growth since this is a non-market performance condition. It is not adjusted for non-vesting or extra vesting of performance shares due to a relative Total Shareholders' Return performance that differs from the performance anticipated at the grant date, since this is a market-based performance condition.

The fair value of the performance shares is measured based on Monte-Carlo simulation, which takes into account dividend payments between the grant date and the vesting date by including reinvested dividends, the market conditions expected to impact relative Total Shareholders' Return performance in relation to selected peers, and the following weighted-average assumptions:

<b>Assumptions used in Monte-Carlo simulation for valuation in %</b>			
2013 - 2015			
	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>EUR-denominated</b>			
Risk-free interest rate	0.55%	0.35%	(0.11%)
Expected dividend yield	3.7%	3.9%	4.0%
Expected share price volatility	27%	25%	25%
<b>USD-denominated</b>			
Risk-free interest rate	0.55%	0.35%	(0.10%)
Expected dividend yield	3.7%	3.9%	4.0%
Expected share price volatility	30%	27%	27%

The assumptions were used for these calculations only and do not necessarily represent an indication of Philips Group Management's expectation of future developments for other purposes. The Company has based its volatility assumptions on historical experience measured over a ten-year period.

A summary of the status of the Philips Lighting's performance share plans as of 31 December, 2015 and changes for Philips Lighting during the year is presented below:

#### **Performance share plans**

2013 - 2015

	<u>EUR-denominated</u>		<u>USD-denominated</u>	
	<u>shares</u>	<u>weighted average grant-date fair value</u>	<u>shares</u>	<u>weighted average grant-date fair value</u>
<b>Outstanding at January 1, 2013</b>	—	—	—	—
Granted	1,027,774	23.59	488,736	31.01
Transfers	—	—	—	—
Vested	—	—	—	—
Forfeited	17,292	23.45	25,444	30.66
<b>Outstanding at December 31, 2013</b>	<b>1,010,482</b>	<b>23.59</b>	<b>463,292</b>	<b>31.03</b>
<b>Outstanding at January 1, 2014</b>	<b>1,010,482</b>	<b>23.59</b>	<b>463,292</b>	<b>31.03</b>
Granted	1,095,802	22.94	507,933	30.38
Transfers	4,105	23.45	1,601	30.66
Vested	—	—	—	—
Forfeited	200,062	23.81	41,322	30.43
<b>Outstanding at December 31, 2014</b>	<b>1,910,327</b>	<b>23.19</b>	<b>931,504</b>	<b>30.70</b>
<b>Outstanding at January 1, 2015</b>	<b>1,910,327</b>	<b>23.19</b>	<b>931,504</b>	<b>30.70</b>
Granted	808,913	27.13	281,595	30.14
Transfers	(115,480)	23.98	(4,970)	30.36
Vested	—	—	—	—
Forfeited	271,117	24.04	98,824	31.25
<b>Outstanding at December 31, 2015</b>	<b>2,332,643</b>	<b>24.42</b>	<b>1,109,305</b>	<b>30.51</b>

At 31 December, 2015, an estimation of total of EUR 38 million of unrecognized compensation costs relate to non-vested performance shares has been allocated to Philips Lighting. These costs are expected to be recognized over a weighted-average period of 1.8 years.

### Restricted shares

The fair value of restricted shares is equal to the share price at grant date less the present value, using the risk-free interest rate, of estimated future dividends which will not be received up to the vesting date.

Philips Group issues restricted shares that, in general, vest in equal annual installments over a three-year period, starting one year after the date of grant. For grants up to and including January 2013 Philips Group granted 20% additional (premium) shares, provided the grantee still holds the shares after three years from the delivery date and the grantee is still with Philips Lighting on the respective delivery dates.

A summary of the status of the Philips Group restricted shares granted to Philips Lighting employees as of 31 December 2015 and changes for Philips Lighting during the year is presented below:

#### Restricted shares 2013 - 2015

	EUR-denominated		USD-denominated	
	shares	weighted average grant-date fair value	shares	weighted average grant-date fair value
<b>Outstanding at January 1, 2013</b>	<b>592,025</b>	<b>16.02</b>	<b>779,932</b>	<b>19.24</b>
Granted	45,509	22.66	92,664	32.43
Transfers	4,037	24.83	1,822	26.12
Vested	264,337	17.86	286,227	20.99
Forfeited	27,605	15.69	40,857	19.16
<b>Outstanding at December 31, 2013</b>	<b>349,629</b>	<b>15.63</b>	<b>547,334</b>	<b>20.61</b>
<b>Outstanding at January 1, 2014</b>	<b>349,629</b>	<b>15.63</b>	<b>547,334</b>	<b>20.61</b>
Granted	10,592	20.63	6,982	25.41
Transfers	58,966	22.36	67,981	31.89
Vested	202,869	16.32	275,222	20.75
Forfeited	25,821	15.97	42,174	28.90
<b>Outstanding at December 31, 2014</b>	<b>190,497</b>	<b>17.24</b>	<b>304,901</b>	<b>21.99</b>
<b>Outstanding at January 1, 2015</b>	<b>190,497</b>	<b>17.24</b>	<b>304,901</b>	<b>21.99</b>
Granted	325,989	23.42	248,604	26.29
Transfers	(9,994)	17.48	(1,338)	16.38
Vested	116,015	15.14	228,529	19.00
Forfeited	9,374	12.92	3,839	27.70
<b>Outstanding at December 31, 2015</b>	<b>381,103</b>	<b>23.25</b>	<b>319,799</b>	<b>27.35</b>

At 31 December, 2015, a total of EUR 10 million of unrecognized compensation costs relate to non-vested restricted shares. These costs are expected to be recognized over a weighted-average period of 1.6 years.

### Option plans

Philips Group granted options that expire after 10 years. These options vest after 3 years, provided that the grantee is still employed with Philips Lighting. A limited number of options granted to certain employees of acquired business may contain accelerated vesting. As of 31 December, 2015 there are no non-vested options which contain non-market performance conditions.

The following tables summarize information about the Philips Lighting's options as of 31 December, 2015 and changes during the year:

### Options

2013 - 2015

	EUR-denominated		USD-denominated	
	options	weighted average exercise price	options	weighted average exercise price
<b>Outstanding at January 1, 2013</b>	<b>6,528,510</b>	<b>21.40</b>	<b>2,911,596</b>	<b>28.47</b>
Granted	17,625	22.43	5,250	30.27
Transfers	79,574	24.02	(2,169)	21.70
Exercised	824,196	18.48	253,876	23.35
Forfeited	503,371	23.47	199,170	30.72
Expired	26,331	17.62	5,481	18.11
<b>Outstanding at December 31, 2013</b>	<b>5,271,811</b>	<b>21.73</b>	<b>2,456,150</b>	<b>28.85</b>
<b>Outstanding at January 1, 2014</b>	<b>5,271,811</b>	<b>21.73</b>	<b>2,456,150</b>	<b>28.85</b>
Transfers	40,317	22.00	18,171	28.15
Exercised	717,509	21.12	182,250	27.20
Forfeited	303,129	22.03	87,021	32.45
Expired	69,047	24.13	14,989	28.78
<b>Outstanding at December 31, 2014</b>	<b>4,222,443</b>	<b>21.77</b>	<b>2,190,061</b>	<b>28.84</b>
<b>Outstanding at January 1, 2015</b>	<b>4,222,443</b>	<b>21.77</b>	<b>2,190,061</b>	<b>28.84</b>
Transfers	864,732	24.28	481,068	29.68
Exercised	1,065,431	19.38	344,055	24.47
Forfeited	764,837	25.66	340,873	31.22
Expired	178,574	19.43	65,130	25.29
<b>Outstanding at December 31, 2015</b>	<b>3,078,333</b>	<b>22.47</b>	<b>1,921,071</b>	<b>29.53</b>
<b>Excercisable at December 31, 2015</b>	<b>3,077,208</b>	<b>22.47</b>	<b>1,915,821</b>	<b>29.53</b>

The exercise prices for EUR denominated options range from EUR 12.63 to EUR 32.04. The weighted average remaining contractual term for options outstanding and options exercisable at 31 December, 2015, was for both 3.5 years. The aggregate intrinsic value of the options outstanding and options exercisable at 31 December, 2015, was EUR 9 million and EUR 9 million, respectively.

The total intrinsic value of options exercised during 2015 was EUR 8 million (2014: EUR 3 million, 2013: EUR 5 million).

The exercise prices for USD denominated option range from USD 16.76 to USD 44.15. The weighted average remaining contractual term for options outstanding and options exercisable at 31 December, 2015, was for both 3.93 years. The aggregate intrinsic value of the options outstanding and options exercisable at 31 December, 2015, was USD 3.9 million and USD 3.9 million, respectively.

The total intrinsic value of options exercised during 2015 was EUR 3 million (2014: EUR 1 million, 2013: EUR 2 million).

At 31 December, 2015, there were no unrecognized costs related to outstanding options. Cash received from exercises under the Philips Group's option plans for Philips Lighting amounted to EUR 31 million in 2015 (2014: EUR 20 million, 2013: EUR 4 million). The actual tax deductions realized as a result of option exercises totaled approximately EUR 1 million in 2015 (2014: EUR 1 million, 2013: EUR 1 million).

The outstanding options as of 31 December, 2015 are categorized in exercise price ranges as follows:

**Outstanding options**

2013

Excercise price	<u>options</u>	<u>intrinsic value in millions</u>	<u>weighted average contractual term</u>
<b>EUR-denominated</b>			
10-15	1,395,158	17	7.5 yrs
15-20	318,852	2	2.6 yrs
20-25	2,358,036	9	5.5 yrs
25-30	512,703	—	2.3 yrs
30-35	687,061	—	3.3 yrs
<b>Outstanding options</b>	<b>5,271,810</b>	<b>28</b>	<b>5.3 yrs</b>

**USD-denominated**

15-20	676,547	12	7.6 yrs
20-25	173,396	3	8.1 yrs
25-30	543,260	4	5.5 yrs
30-35	476,626	2	4.9 yrs
35-40	275,684	—	4.3 yrs
40-45	310,638	—	3.3 yrs
<b>Outstanding options</b>	<b>2,456,151</b>	<b>21</b>	<b>5.7 yrs</b>

**Outstanding options**

2014

Excercise price	<u>options</u>	<u>intrinsic value in millions</u>	<u>weighted average contractual term</u>
<b>EUR-denominated</b>			
10-15	1,189,893	12	6.6 yrs
15-20	220,565	1	1.5 yrs
20-25	1,735,287	3	5.1 yrs
25-30	454,645	—	1.3 yrs
30-35	622,053	—	2.3 yrs
<b>Outstanding options</b>	<b>4,222,443</b>	<b>16</b>	<b>4.5 yrs</b>

**USD-denominated**

15-20	617,442	6	6.7 yrs
20-25	169,517	1	7.2 yrs
25-30	451,583	—	5.2 yrs
30-35	413,176	—	3.9 yrs
35-40	255,807	—	3.3 yrs
40-45	282,536	—	2.3 yrs
<b>Outstanding options</b>	<b>2,190,061</b>	<b>7</b>	<b>4.5 yrs</b>

**Outstanding options**

2015

Excercise price	<u>options</u>	<u>intrinsic value in millions</u>	<u>weighted average contractual term</u>
<b>EUR-denominated</b>			
10-15	794,761	7	5.5 yrs
15-20	30,219	—	6.3 yrs
20-25	1,314,252	1	4.1 yrs
25-30	390,241	—	0.3 yrs
30-35	548,860	—	1.3 yrs
<b>Outstanding options</b>	<b>3,078,333</b>	<b>8</b>	<b>3.5 yrs</b>

Exercise price	<u>options</u>	<u>intrinsic value in millions</u>	<u>weighted average contractual term</u>
<b>USD-denominated</b>			
15-20	494,892	3	5.8 yrs
20-25	143,180	1	6.2 yrs
25-30	370,431	—	4.7 yrs
30-35	389,755	—	2.9 yrs
35-40	249,925	—	2.3 yrs
40-45	272,888	—	1.3 yrs
<b>Outstanding options</b>	<b><u>1,921,071</u></b>	<b><u>4</u></b>	<b><u>3.9 yrs</u></b>

The aggregate intrinsic value in the tables and text above represents the total pre-tax intrinsic value (the difference between Philips Group's closing share price on the last trading day of 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders if the options had been exercised on 31 December, 2015.

The following table summarizes information about the Philips Accelerate! options as of 31 December, 2015 and changes during the year:

**Accelerate! Options**  
2013 - 2015

	<u>EUR-denominated</u>		<u>USD-denominated</u>	
	<u>options</u>	<u>weighted average exercise price</u>	<u>options</u>	<u>weighted average exercise price</u>
<b>Outstanding at January 1, 2013</b>	<b>851,360</b>	<b>15.24</b>	<b>158,200</b>	<b>20.02</b>
Transfers	4,200	15.24	(1,400)	20.02
Exercised	—	—	—	—
Forfeited	79,000	15.24	—	—
<b>Outstanding at December 31, 2013</b>	<b>776,560</b>	<b>15.24</b>	<b>156,800</b>	<b>20.02</b>
<b>Outstanding at January 1, 2014</b>	<b>776,560</b>	<b>15.24</b>	<b>156,800</b>	<b>20.02</b>
Transfers	4,200	15.24	1,400	20.02
Exercised	385,460	15.24	39,800	20.02
Forfeited	25,000	15.24	—	—
<b>Outstanding at December 31, 2014</b>	<b>370,300</b>	<b>15.24</b>	<b>118,400</b>	<b>20.02</b>
<b>Outstanding at January 1, 2015</b>	<b>370,300</b>	<b>15.24</b>	<b>118,400</b>	<b>20.02</b>
Transfers	(27,200)	15.24	(4,200)	20.02
Exercised	117,860	15.24	30,000	20.02
Forfeited	7,000	15.24	1,400	20.02
<b>Outstanding at December 31, 2015</b>	<b>218,240</b>	<b>15.24</b>	<b>82,800</b>	<b>20.02</b>
<b>Exercisable at December 31, 2015</b>	<b>218,240</b>	<b>15.24</b>	<b>82,800</b>	<b>20.02</b>

The exercise price of the Accelerate! options is EUR 15.24 for EUR-denominated options and is USD 20.02 for USD-denominated options. The weighted average remaining contractual term for EUR-denominated Accelerate! options outstanding and exercisable at 31 December, 2015 is 6.08 years for both. The weighted average remaining contractual term for USD-Accelerate! options outstanding and exercisable at 31 December, 2015 is 6.1 years for both. The aggregate intrinsic value of the EUR-denominated Accelerate! options outstanding and exercisable at 31 December, 2015, was EUR 2 million for both. The aggregate intrinsic value of the USD-denominated Accelerate! options outstanding and exercisable at 31 December, 2015, was less than USD 1 million for both.

Cash received from exercises for EUR-denominated and USD-denominated Accelerate! options amounted to EUR 2 million in 2015 (2014: EUR 6 million). The actual tax deductions realized as a result of Accelerate! options exercises totaled approximately EUR nil million in 2015 and 2014



The total intrinsic value of Accelerate! options exercised during 2015 was EUR 1 million for EUR-denominated options (2014: EUR 4 million) and less than USD 1 million (2014: USD 1 million) for USD-denominated options.

### **30 Details of treasury/other financial risks**

Philips Lighting is exposed to several types of financial risks. This note further analyzes financial risks. Philips Lighting does not purchase or hold derivative financial instruments for speculative purposes. Information regarding financial instruments is included in note 31, Fair value of financial assets and liabilities.

#### *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Liquidity risk for the group is monitored through the Philips Treasury Risk & liquidity committees which tracks the development of the actual cash flow position for the Philips group and uses input from a number of sources in order to forecast the overall liquidity position both on a short and long term basis. Philips Group Treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due.

#### *Currency risk*

Currency risk is the risk that reported financial performance or the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Philips Lighting operates in many countries and currencies and therefore currency fluctuations inevitably may impact Philips Lighting's financial results. Philips Lighting is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions
- Transaction exposure of foreign-currency intercompany and external debt and deposits
- Translation exposure of net income in foreign entities
- Translation exposure of foreign-currency denominated equity invested in consolidated companies
- Translation exposure to equity interests in nonfunctional-currency investments in associates and available-for-sale financial assets.

It is Philips Lighting's policy to reduce the potential year on year volatility caused by foreign-currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign-currency sales and purchases. In general net anticipated exposures are hedged during a period of 15 months in layers of 20% up to a maximum hedge of 80%, using forwards and currency options. Philips Lighting's policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Philips Lighting from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

During 2015 Philips Lighting has changed its hedging policy with regard to anticipated transaction exposures. The previous hedging policy focused on protecting against changes in value of forecasted individual transactions and cash flows. Under the previous policy the hedging ratio and period were set by individual businesses based on their ability to forecast cash flows, the time horizon for the cash flows and their ability to adapt to changing levels of foreign currency rates. Existing hedges under the old policy are continued until they mature against the original forecasted transactional exposures.

The following table outlines the estimated nominal value in millions of EUR for transaction exposure and related hedges for Philips Lighting's most significant currency exposures:

**Estimated transaction exposure and related hedges** in millions unless otherwise stated  
2013 - 2015

	<b>Receivables</b>		<b>Payables</b>	
	<b>exposure</b>	<b>hedges</b>	<b>exposure</b>	<b>hedges</b>
<b>Balance as of January 1, 2013</b>				
<b>Exposure currency</b>				
USD	363	(237)	(621)	326
PLN	90	(55)	(177)	103
GBP	22	(12)	—	—
RON	20	(12)	—	—
CNY	—	—	(370)	241
SGD	—	—	(82)	45
MYR	—	—	(77)	34
MXN	—	—	(32)	20
Others	577	(333)	(121)	90
<b>Total 2013</b>	<b>1,072</b>	<b>(649)</b>	<b>(1,480)</b>	<b>859</b>
<b>Balance as of December 31, 2013</b>				
<b>Exposure currency</b>				
USD	157	(102)	(175)	105
GBP	72	(42)	(9)	5
AED	44	(23)	—	—
AUD	20	(12)	—	—
PLN	17	(15)	(132)	60
SGD	6	(4)	(23)	23
CNY	—	—	(232)	162
MYR	—	—	(17)	17
Others	365	(223)	(16)	11
<b>Total 2013</b>	<b>681</b>	<b>(421)</b>	<b>(604)</b>	<b>383</b>
<b>Balance as of December 31, 2014</b>				
<b>Exposure currency</b>				
USD	172	(136)	(151)	113
GBP	47	(33)	(1)	—
RON	38	(15)	—	—
PLN	30	(25)	(81)	53
AED	26	(19)	—	—
CNY	23	(23)	(217)	168
MXN	21	(14)	—	—
SGD	10	(7)	(22)	23
MYR	—	—	(22)	22
Others	320	(221)	(4)	3
<b>Total 2014</b>	<b>687</b>	<b>(493)</b>	<b>(498)</b>	<b>382</b>
<b>Balance as of December 31, 2015</b>				
<b>Exposure currency</b>				
USD	105	(104)	(206)	146
GBP	66	(35)	(1)	—
PLN	60	(59)	(15)	15
CNY	12	(13)	(354)	197
CAD	31	(2)	—	—
SEK	25	(12)	—	—
CHF	25	(12)	—	—
MXN	19	(11)	—	—
Others	272	(170)	(91)	41
<b>Total 2015</b>	<b>615</b>	<b>(418)</b>	<b>(667)</b>	<b>399</b>

The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/payable and forecasted sales and purchases. Changes in the value of on-balance-sheet foreign-currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported in the income statement under cost of sales. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity to the extent that the hedge is effective. As of 31 December, 2015, a gain of EUR 3 million was deferred in equity as a result of these hedges. The result deferred in equity will be released to earnings mostly during 2016 at the time when the related hedged transaction affect the Combined statements of Income. During 2015, a net loss of less than EUR 1 million was recorded in the Combined statements of Income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of 31 December 2015 was an unrealized asset of EUR 3 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to an increase of EUR 9 million in the value of the derivatives; including a EUR 4 million increase related to foreign exchange transactions of the Polish Zloty against the euro and a EUR 4 million increase related to foreign exchange transactions of the Pound Sterling against euro, partially offset by a EUR 8 million decrease related to foreign exchange transactions of the euro against the US dollar.

The EUR 9 million increase includes a gain of EUR 6 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of EUR 3 million would be recognized in equity to the extent that the cash flow hedges were effective.

The total net fair value of hedges related to transaction exposure as of 31 December 2014 was an unrealized asset of EUR 3 million. An instantaneous 10% increase in the value of the euro against all currencies would lead to a decrease of less than EUR 1 million in the value of the derivatives; including a EUR 5 million decrease related to foreign exchange transactions of the US dollar against the euro and a EUR 3 million decrease related to foreign exchange transactions of the Pound Sterling against euro, offset by a EUR 14 million increase related to foreign exchange transactions of the euro against the US dollar.

Foreign exchange exposure also arises as a result of intercompany loans and deposits. Where Philips Lighting enters into such arrangements the financing is generally provided in the functional currency of the subsidiary entity. The currency of Philips Lighting external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits or synthetically by using foreign exchange derivatives, including cross currency interest rate swaps and foreign exchange forward contracts. In certain cases where group companies may also have external foreign currency debt or liquid assets, these exposures are also hedged through the use of foreign exchange derivatives. Changes in the fair value of hedges related to this exposure are either recognized within financial income and expenses in the Combined Statements of Income or accounted for as cash flow hedges.

Philips Lighting does not currently hedge the foreign exchange exposure arising from equity interests in non-functional- currency investments in associates and available-for-sale financial assets.

#### *Commodity price risk*

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Philips Lighting is a purchaser of certain base metals, precious metals and energy. Philips Lighting hedges certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. The commodity price derivatives that Philips Lighting enters into accounted for as cash flow hedges to offset forecasted purchases. As of December 2015, a loss of EUR 0.1 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of 31 December, 2015 would increase the fair value of the derivatives by less than EUR 0.1 million.

As of December 2014, a loss of EUR 0.1 million was deferred in equity as a result of these hedges. A 10% increase in the market price of all commodities as of 31 December, 2014 would increase the fair value of the derivatives by less than EUR 0.1 million.

### *Credit risk*

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Philips Lighting trade receivables. To have better insights into the credit exposures, Philips Lighting performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap including reducing payment terms, cash on delivery, pre-payments and pledges on assets.

As part of Philips Group Treasury, Philips Lighting invests available cash and cash equivalents with various financial institutions and is exposed to credit risk with these counterparties. As part of Philips Group Treasury, Philips Lighting is also exposed to credit risks in the event of non-performance by financial institutions with respect to financial derivative instruments. Philips Lighting actively manages concentration risk and on a daily basis measures the potential loss under certain stress scenarios, should a financial institution default. These worst-case scenario losses are monitored and limited by Philips Lighting, as part of Philips Group Treasury.

As part of Philips Group Treasury, Philips Lighting does not enter into any financial derivative instruments to protect against default by financial institutions. However, where possible Philips Lighting requires all financial institutions with whom it deals in derivative transactions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a strong credit rating from Standard & Poor's and Moody's Investor Services. As part of Philips Group Treasury, Philips Lighting also regularly monitors the development of the credit risk of its financial counterparties. Wherever possible, cash is invested and financial transactions are concluded with financial institutions with strong credit ratings or with governments or government-backed institutions.

### *Country risk*

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable. The country risk is monitored on a regular basis.

As at 31 December 2015, Philips Lighting had country risk exposure of EUR 2.4 billion in the United States and EUR 1.0 billion in The Netherlands. Other countries higher than EUR 100 million are Saudi Arabia (286 million), Spain (EUR 194 million), Belgium (EUR 177 million) and China (including Hong Kong, EUR 165 million). Countries where the risk exceeded EUR 20 million but less than EUR 100 million are France, Australia, Taiwan and Mexico. The degree of risk of a country is taken into account when new investments are considered. Philips Lighting does not, however, use financial derivative instruments to hedge country risk.

### *Other insurable risk*

Philips Lighting is covered for a broad range of losses by global insurance policies in the areas of property damage/business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime and cybersecurity. The counterparty risk related to the insurance companies participating in the above mentioned global insurance policies are actively managed. As a rule Philips Lighting only selects insurance companies with a Standard & Poor's credit rating of at least A-. Throughout the year the counterparty risk is monitored on a regular basis.

To lower exposures and to avoid potential losses, Philips Lighting as part of Philips, has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Philips Lighting locations and business critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across Philips Lighting's stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards which are agreed between Philips Group and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented.

For all policies, deductibles are in place, which vary from EUR 250,000 to EUR 5 million per occurrence and this variance is designed to differentiate between the existing risk categories within Philips Lighting as part

of Philips. Above this first layer of working deductibles, Philips Lighting as part of Philips operates its own re-insurance captive, which during 2015 retained EUR 2.5 million per occurrence for property damage and business interruption losses and EUR 5 million in the aggregate per year. For general and product liability claims, the captive retained EUR 1.5 million per claim and EUR 6 million in the aggregate. New contracts were signed on 31 December, 2015, for the coming year, whereby the re-insurance captive retentions remained unchanged.

### 31 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-term debts, the carrying amounts approximate fair value, because of the short maturity of these instruments, and therefore fair value information is not included in the table below.

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 quoted market prices 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 of financial assets and liabilities in millions of EUR unless otherwise stated 2013 - 2015

	Balance as of 1 January 2013		Balance as of 31 December 2013		Balance as of 31 December 2014		Balance as of 31 December 2015	
	carrying amount	estimated fair value	carrying amount	estimated fair value	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 - non-current	—	—	—	—	—	—	—	—
Securities classified assets held for sale	—	—	—	—	—	—	—	—
Fair value through profit and loss - non-current	—	—	—	—	—	—	—	—
Derivative financial instruments	21	21	20	20	17	17	9	9
<b>Financial assets carried at fair value</b>	<b>21</b>		<b>20</b>		<b>17</b>		<b>9</b>	



	Balance as of 1 January 2013		Balance as of 31 December 2013		Balance as of 31 December 2014		Balance as of 31 December 2015	
	carrying amount	estimated fair value	carrying amount	estimated fair value	carrying amount	estimated fair value	carrying amount	estimated fair value
<b>Carried at (amortized) cost:</b>								
Cash and cash equivalents	58		49		75		83	
Loans and receivables:								
Loans - current	—		2	2	—		—	
Non-current loans and receivables	—		—		—		—	
Other non-current loans and receivables	7	7	9	9	12	12	3	3
Receivables - current	1,242		1,371		1,545		1,599	
Receivables - non-current	8	8	8	8	10	10	20	20
Held-to-maturity investments	—		—		1		—	
Available-for-sale financial assets	15	15	13	13	10	10	5	5
<b>Financial assets carried at (amortized) costs</b>	<b>1,330</b>		<b>1,452</b>		<b>1,653</b>		<b>1,710</b>	
<b>Financial liabilities</b>								
<b>Carried at fair value:</b>								
Derivative financial instruments	(22)	(22)	(22)	(22)	(15)	(15)	(7)	(7)
<b>Financial liabilities carried at fair value</b>	<b>(22)</b>		<b>(22)</b>		<b>(15)</b>		<b>(7)</b>	
<b>Carried at (amortized) cost:</b>								
Accounts payable	(889)		(887)		(884)		(1,051)	
Accrued interest	—		—		—		(1)	
Debt	(9)		(8)		(90)		(88)	
<b>Financial liabilities carried at (amortized) costs</b>	<b>(898)</b>		<b>(895)</b>		<b>(974)</b>		<b>(1,140)</b>	

**Fair value hierarchy** in millions of EUR unless otherwise stated  
2013 – 2015

	<u>level 1</u>	<u>level 2</u>	<u>level 3</u>	<u>total</u>
<b>Balance 31 December 2015</b>				
Loans - current	—	—	—	—
Derivative financial instruments - assets	—	9	—	9
Non-current loans and receivables	—	3	—	3
Available-for-sale financial assets	—	5	—	5
Receivables - non-current	—	20	—	20
<b>Total financial assets</b>	<b>—</b>	<b>37</b>	<b>—</b>	<b>37</b>
Derivative financial instruments - liabilities	—	(7)	—	(7)
Debt	—	—	—	—
<b>Total financial liabilities</b>	<b>—</b>	<b>(7)</b>	<b>—</b>	<b>(7)</b>
<b>Balance 31 December 2014</b>				
Loans - current	—	—	—	—
Derivative financial instruments - assets	—	17	—	17
Non-current loans and receivables	—	12	—	12
Available-for-sale financial assets	—	10	—	10
Receivables - non-current	—	10	—	10
<b>Total financial assets</b>	<b>—</b>	<b>49</b>	<b>—</b>	<b>49</b>

	<u>level 1</u>	<u>level 2</u>	<u>level 3</u>	<u>total</u>
Derivative financial instruments - liabilities	—	(15)	—	(15)
Debt	—	—	—	—
<b>Total financial liabilities</b>	<b>—</b>	<b>(15)</b>	<b>—</b>	<b>(15)</b>
<b>Balance 31 December 2013</b>				
Loans - current	—	2	—	2
Derivative financial instruments - assets	—	20	—	20
Non-current loans and receivables	—	9	—	9
Available-for-sale financial assets	—	13	—	13
Receivables - non-current	—	8	—	8
<b>Total financial assets</b>	<b>—</b>	<b>52</b>	<b>—</b>	<b>52</b>
Derivative financial instruments - liabilities	—	(22)	—	(22)
Debt	—	—	—	—
<b>Total financial liabilities</b>	<b>—</b>	<b>(22)</b>	<b>—</b>	<b>(22)</b>
<b>Balance 1 January 2013</b>				
Loans - current	—	—	—	—
Derivative financial instruments - assets	—	21	—	21
Non-current loans and receivables	—	7	—	7
Available-for-sale financial assets	—	15	—	15
Receivables - non-current	—	8	—	8
<b>Total financial assets</b>	<b>—</b>	<b>51</b>	<b>—</b>	<b>51</b>
Derivative financial instruments - liabilities	—	(22)	—	(22)
Debt	—	—	—	—
<b>Total financial liabilities</b>	<b>—</b>	<b>(22)</b>	<b>—</b>	<b>(22)</b>

### 32 Subsequent events

In accordance with IFRS 1 subsequent events have been considered for adjustment or disclosure up to 23 February 2016, the date of issuance of the Philips Consolidated Financial Statements, from which these Combined Financial Statements were derived, were authorized for issue.

As part of the legal separation on 1 February 2016, Philips Lighting and Philips entered into a master separation agreement, including local business transfer agreements in various countries, whereby in principle all assets and liabilities related to the Lighting business were transferred to Philips Lighting.

In addition, as part of the separation, pension obligations and corresponding assets of Philips Group defined benefit plans with a net liability amount of approximately EUR 607 million were contributed to Philips Lighting (also refer to note 19).

## **Independent auditor's report**

To: The management of Philips Lighting

We have audited the accompanying Combined Financial Statements of Philips Lighting, which comprise the combined balance sheets as at December 31, 2015, 31 December 2014, 31 December 2013, the combined statements of income, comprehensive income, changes in cash flows and business equity for the years then ended, and notes, comprising a summary of significant accounting policies and disclosure notes.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of the Combined Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Furthermore, Management is responsible for such internal control as it determines is necessary to enable the preparation of the Combined Financial Statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these Combined Financial Statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Combined Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Combined Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Combined Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Combined Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the Combined Financial Statements give a true and fair view of the financial position of Philips Lighting as at December 31, 2015, 31 December 2014, 31 December 2013 and of its results and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Basis of preparation**

Without modifying our opinion, we draw attention to note 2A and 2B, which describe the special purpose of the Combined Financial Statements and the notes, including the basis of accounting. The Combined Financial Statements are prepared in connection with a contemplated carve-out transaction. As a result, the Combined Financial Statements may not be suitable for another purpose.

Amstelveen, 10 May 2016

KPMG Accountants N.V.

J. van Delden RA

## **PENSION NOTES OF THE ROYAL PHILIPS 2015 ANNUAL REPORT**

Royal Philips is the sponsor of the Group's defined benefit plans. This Annex includes:

- the "Employee benefit accounting"-section as included in Note 12.9 (1) to the consolidated financial statements of Royal Philips as included in the Royal Philips annual report for the year ended 31 December 2015; and
- a description of the defined benefit plans of Royal Philips as included in Note 12.9(20) "Post-employment benefits" to the consolidated financial statements of Royal Philips as included in the Royal Philips annual report for the year ended 31 December 2015.

## **Employee benefit accounting**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Statement of income in the periods during which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Plans for which the Company has no legal or constructive obligation to pay further amounts, however for which contributions paid by the Company are not fixed, are also treated as defined benefit plan. The net pension asset or liability recognized in the Consolidated balance sheets in respect of defined benefit postemployment plans is the fair value of plan assets less the present value of the projected defined benefit obligation (DBO) at the balance sheet date. The projected defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. Recognized assets are limited to the present value of any reductions in future contributions or any future refunds.

For the Company's major plans, a full discount rate curve of high-quality corporate bonds is used to determine the defined benefit obligation. The curves are based on Towers Watson's RATE:Link methodology which uses data of corporate bonds rated AA or equivalent. For the other plans a single point discount rate is used based on corporate bonds for which there is a deep market and the plan's maturity. Plans in countries without a deep corporate bond market use a discount rate based on the local sovereign curve and the plan's maturity.

Pension costs in respect of defined benefit postemployment plans primarily represent the increase of the actuarial present value of the obligation for postemployment benefits based on employee service during the year and the interest on the net recognized asset or liability in respect of employee service in previous years.

Remeasurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest). The Company recognizes all remeasurements in Other comprehensive income.

The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement, and the settlement price, including any plan assets transferred and any payments made directly by the Company in connection with the settlement. In this respect, the amount of the plan assets transferred is adjusted for the effect of the asset ceiling. Past service costs following from the introduction of a change to the benefit payable under a plan or a significant reduction of the number of employees covered by a plan (curtailment), are recognized in full in the Statement of income.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The Company recognizes a liability and an expense for bonuses and incentives based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments.

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, such as jubilee entitlements. That benefit is discounted to determine its present value. Remeasurements are recognized in the Statement of income in the period in which they arise.

## **20 Post-employment benefits**

Employee post-employment plans have been established in many countries in accordance with the legal requirements, customs and the local practice in the countries involved.

Most employees that take part in a Company pension plan are covered by defined contribution (DC) pension plans. The Company also sponsors a number of defined benefit pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels. The Company also sponsors a limited number of defined benefit retiree medical plans.

The benefits provided by these plans are typically covering a part of the healthcare insurance costs after retirement.



The largest defined benefit pension plans are in:

- The Netherlands (settled per May 1, 2015),
- The United Kingdom (UK) (settled per December 31, 2015) and
- The United States (US)

At the start of 2015 these plans accounted for more than 90% of the total defined benefit obligation and plan assets. Philips is one of the sponsors of Philips Pensionskasse WaG in Germany, which is a multi-employer plan and is accounted for as a DC plan.

### **The Netherlands**

For the pension plan in the Netherlands (the Flexplan) the Company has no other financial obligation to the Pension Fund than to pay an agreed fixed contribution for the annual accrual of active members. The pensionable age is 67 year. The Flexplan is executed by a Company Pension Fund. A mandatory cap imposed by Dutch legislation of EUR 100 thousand applies on the pension salary for future pension accrual. Employees earning more than this cap receive a wage allowance and can join a voluntary net pension saving scheme, at their own expense, for the salary part above the cap. The net pension saving scheme and some related risk insurances are executed by an external provider other than the Company Pension Fund.

Up to May 2015, the Company accounted for the Flexplan as a defined benefit (DB) pension plan as it still ran actuarial and investments risks by means of being entitled to a discount arrangement. This discount arrangement would result in potential future variable pension contributions to be paid by the Company. Beginning of May 2015, the Company surrendered its right to future discounts and as a result the plan qualified as a defined contribution plan. Reason for surrendering the discount arrangement was a significant reduction in 2015 of the outlook for a potential discount due to increased pension obligations and a regulatory deficit at the fund (because of a lower regulatory discount rate and higher solvency buffers due to change in investment strategy), combined with the need to avoid unwanted complexity of an allocation of the Dutch fund as a DB plan as part of the separation. Consequently, the plan was classified as a DC plan. This triggered the accounting settlement of the plan which at the time had a EUR 20 million surplus. As the surplus was not recognized in the balance sheet due to the asset ceiling test, and because no further payments were made directly related to the settlement, as per the Company's accounting policy the Company did not recognize a settlement result in the income statement but in remeasurements for pensions in the Consolidated statements of Comprehensive Income.

At the end of 2013 the Company agreed to transfer a one-off EUR 600 million to the Company Pension Fund of which EUR 433 million was paid in 2014; the remainder of EUR 167 million (excluding interest) was paid in the first quarter of 2015.

### **United Kingdom**

The UK plan is executed by a Company Pension Fund currently being wound up. In the UK plan the accrual of new benefits ceased in 2011. A legally mandatory indexation for accrued benefits still applies. The Company does not pay regular contributions, other than an agreed portion of the administration costs.

In November 2015 the Trustee of the UK Fund entered into two further bulk insurance contracts—buy-in contracts—which provide for payment in respect of all remaining parts of the Fund's pensioners not covered under earlier buy-in contracts. Subsequently, the Company requested the Trustee for a wind-up of the UK Fund in December 2015 resulting in a complete buy-out of the plan. As part of the buy-out, an additional payment of EUR 305 million was made by the Company to the insurance company taking over the plan liabilities. The buy-out triggers a complete settlement of the UK defined benefit plan. The existing surplus before the extra payment was EUR 375 million. As this surplus was not recognized in the balance sheet, due to the asset ceiling test, per the Company's accounting policy the Company did not recognize this as a settlement result in the income statement but in remeasurements for pensions in the Consolidated statements of Comprehensive Income. However, the above mentioned payment of EUR 305 million for EUR 274 million is booked as a related settlement loss in the income statement and for EUR 31 million as a past service cost in the income statement being the increase in the DBO for a plan change required by the Insurers. Before and during the wind up of the Fund several other de-risking actions were held resulting in a settlement loss of EUR 27 million and a past service cost gain of EUR 14 million.

## **United States**

The US defined benefit plan covers certain hourly workers and salaried workers hired before January 1, 2005. Indexation of benefits is not mandatory. The Company pays contributions for the annual service costs as well as additional contributions to cover a deficit. The assets of the US plan are in a Trust governed by Trustees.

The accrual for salaried workers in the US plan as decided in 2013 would end per December 31, 2015 after which the remaining members become eligible for the existing US DC plan. In 2015 the end date was accelerated to July 1, 2015 triggering a EUR 1 million past service cost gain.

In 2015 in preparation of the split of the Company into Lighting Solutions and HealthTech the benefits of a group of former US employees not having worked for any of the current businesses were transferred to a separate plan covered by ERISA section 4044, which ensures a correct split of the plan assets among others based on the maturity of the plan. In October 2015 all the benefits of this plan were transferred to a consortium of three insurance companies. The Company made a EUR 141 million contribution to the plan to enable the transfer. The transfer to the insurance companies triggered a settlement of the plan. The difference between the DBO and settlement price at transfer date amounted to EUR 33 million and is recognized as a settlement loss in the income statement. The effects of ERISA section 4044 for the surviving defined benefit plan will be adjusted by a contribution to the surviving plan early in 2016 which is included in the 2016 cash projection further on in this note. A de-risking action held in the remaining pension plan providing lump sums resulted in a EUR 6 million settlement gain.

### **Risks related to defined-benefit plans**

The remaining defined benefit plans expose the Company to various demographic and economic risks such as longevity risk, investment risks, currency and interest rate risk and in some cases inflation risk. The latter plays a role in the assumed wage increase and in some smaller plans where indexation is mandatory. Pension fund Trustees are responsible for and have full discretion over the investment strategy of the plan assets. In general Trustees manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

The Company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined benefit plans. Liability driven investment strategies, lump sum cash-out options, buy-ins, buy-outs and the above mentioned 2015 change to DC for the Dutch plan and the other settlements are examples of that strategy. The larger plans are either governed by independent Boards or by Trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory framework.

### **Balance sheet positions**

The net balance sheet position presented in this note can be explained as follows:

- The surplus in our plan in Brazil is not recognized as a net defined benefit asset because in Brazil the regulatory framework prohibits refunds to the employer.
- The deficit of the US defined benefit plan presented under other liabilities and the provisions of the unfunded plans therefore count for the largest part of the net balance sheet position.

The measurement date for all defined-benefit plans is December 31.

## Summary of pre-tax costs for post-employment benefits

The below table contains the total of current-and past service costs, administration costs and settlement results as included in income from operations and the interest cost as included in Financial expenses.

### Defined benefit plans: Pensions

Movements in the net liabilities and assets for defined benefits pension plans:

Philips Group

**Pre-tax costs for post-employment benefits** in millions of EUR

2013 – 2015

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Defined-benefits plans	297	245	561
Included in operating cost	220	182	487
Included in financial expense	71	59	72
Included in discontinued operations	6	4	2
Defined-contribution plans including multi-employer plans	142	148	299
Included in operating cost	134	144	293
Included in discontinued operations	8	4	6

Philips Group

**Defined-benefits obligations** in millions of EUR

2014 – 2015

	<u>2014</u>			<u>2015</u>		
	<u>Netherlands</u>	<u>other</u>	<u>total</u>	<u>Netherlands</u>	<u>other</u>	<u>total</u>
<b>Balance as of January 1</b>	<b>14,294</b>	<b>7,911</b>	<b>22,205</b>	<b>17,616</b>	<b>9,465</b>	<b>27,081</b>
Service cost	174	65	239	77	60	137
Interest cost	478	361	839	120	345	465
Employee contributions	5	4	9	5	4	9
Actuarial (gains) / losses						
– demographic assumptions	(80)	197	117	—	—	—
– financial assumptions	3,487	782	4,269	1,796	(271)	1,525
– experience adjustment	23	25	48	(176)	27	(149)
(Negative) past service cost	(68)	(1)	(69)	—	14	14
Acquisitions	—	12	12	—	—	—
Divestments	—	—	—	—	(12)	(12)
Settlements	—	(9)	(9)	(19,197)	(5,193)	(24,390)
Benefits paid	(699)	(506)	(1,205)	(234)	(553)	(787)
Exchange rate differences	—	624	624	—	635	635
Miscellaneous	2	—	2	—	(1)	(1)
<b>Balance as of December 31</b>	<b>17,616</b>	<b>9,465</b>	<b>27,081</b>	<b>7</b>	<b>4,520</b>	<b>4,527</b>
<b>Present value of funded obligations at</b>						
<b>December 31</b>	<b>17,609</b>	<b>8,532</b>	<b>26,141</b>	<b>—</b>	<b>3,635</b>	<b>3,635</b>
<b>Present value of unfunded obligations at</b>						
<b>December 31</b>	<b>7</b>	<b>933</b>	<b>940</b>	<b>7</b>	<b>885</b>	<b>892</b>

Philips Group  
**Plan assets** in millions of EUR  
2014 – 2015

	2014			2015		
	<u>Netherlands</u>	<u>other</u>	<u>total</u>	<u>Netherlands</u>	<u>other</u>	<u>total</u>
<b>Balance as of January 1</b>	<b>14,843</b>	<b>6,728</b>	<b>21,571</b>	<b>17,847</b>	<b>8,016</b>	<b>25,863</b>
Interest income on plan assets	508	330	838	123	311	434
Admin expenses paid	(9)	(6)	(15)	(3)	(6)	(9)
Return on plan assets excluding interest income	2,534	674	3,208	1,233	(315)	918
Employee contributions	5	4	9	5	4	9
Employer contributions	665	199	864	245	302	547
Divestments	—	—	—	—	(7)	(7)
Settlements	—	(8)	(8)	(19,217)	(5,623)	(24,840)
Benefits paid	(699)	(445)	(1,144)	(233)	(492)	(725)
Exchange rate differences	—	540	540	—	520	520
<b>Balance as of December 31</b>	<b>17,847</b>	<b>8,016</b>	<b>25,863</b>	<b>—</b>	<b>2,710</b>	<b>2,710</b>
Funded status	231	(1,449)	(1,218)	(7)	(1,810)	(1,817)
Unrecognized net assets	(238)	(554)	(792)	—	(90)	(90)
<b>Net balance sheet positions</b>	<b>(7)</b>	<b>(2,003)</b>	<b>(2,010)</b>	<b>(7)</b>	<b>(1,900)</b>	<b>(1,907)</b>

The classification of the net balance is as follows:

Philips group  
**Net balance of defined-benefit pension plans** in millions of EUR  
2014 – 2015

	2014			2015		
	<u>Netherlands</u>	<u>other</u>	<u>total</u>	<u>Netherlands</u>	<u>other</u>	<u>total</u>
Prepaid pension costs under other non-current assets	—	2	2	—	3	3
Accrued pension costs under other liabilities	—	(1,072)	(1,072)	—	(1,018)	(1,018)
Provision for pensions under provisions	(7)	(926)	(933)	(7)	(885)	(802)
Provision in assets held for sale	—	(7)	(7)	—	—	—
<b>Net balance of defined-benefit plans</b>	<b>(7)</b>	<b>(2,003)</b>	<b>(2,010)</b>	<b>(7)</b>	<b>(1,900)</b>	<b>(1,907)</b>

Philips group  
**Changes in the effect of the asset ceiling** in millions of EUR  
2014 – 2015

	2014			2015		
	<u>Netherlands</u>	<u>other</u>	<u>total</u>	<u>Netherlands</u>	<u>other</u>	<u>total</u>
<b>Balance as of January 1</b>	<b>555</b>	<b>428</b>	<b>983</b>	<b>238</b>	<b>554</b>	<b>792</b>
Interests on unrecognized assets	19	28	47	2	27	29
Remeasurements	(336)	73	(263)	(240)	(493)	(733)
Exchange rate differences	—	25	25	—	2	2
<b>Balance as of December 31</b>	<b>238</b>	<b>554</b>	<b>792</b>	<b>—</b>	<b>90</b>	<b>90</b>

## Plan assets allocation

The asset allocation in the company's pension plans at December 31 was as follows:

Philips Group

**Plan assets allocation** in millions of EUR

2014 – 2015

	2014		2015	
	<u>Netherlands</u>	<u>other</u>	<u>Netherlands</u>	<u>other</u>
Matching portfolio:				
– Debt securities	10,663	5,051		1,523
– Other	—	1,299		
Return portfolio:				
– Equity securities	5,088	388		740
– Real estate	1,784	13		9
– Other	312	1,265		438
<b>Total assets</b>	<b><u>17,847</u></b>	<b><u>8,016</u></b>		<b><u>2,710</u></b>

Asset values related to buy-in contracts are now included in the matching portfolio under Other.

The assets in 2015 contain 51% (2014: 17%) unquoted assets, the increase compared to 2014 fully related to the exclusion of the UK and NL plan assets. Plan assets in 2015 do not include property occupied by or financial instruments issued by the Company.

## Assumptions

The mortality tables used for the Company's major schemes are:

- Netherlands: Prognosis table 2014 including experience rating TW2014.
- UK: SAPS 2002 – Core CMI 2011 projection
- US: RP2014 HA/EE Fully Generational scaled with MP2014

In the US the issued MP-2015 mortality improvement scale, not adopted by the Company yet due to the limited extra period (2 years) of observation, would lower the DBO by about EUR 40 million.

The weighted averages of the assumptions used to calculate the defined-benefit obligations as of December 31 were as follows:

Philips Group

**Assumptions used for defined-benefit obligations** in %

2014-2015

	2014		2015	
	<u>Netherlands</u>	<u>other</u>	<u>Netherlands</u>	<u>other</u>
Discount rate	2.1%	3.7%	—	4.0%
Rate of compensation increase	2.0%	3.0%	—	2.7%

The Discount rate for the Netherlands at the moment of the change to DC was 1.55%. Due to the nature of the pension plan in the Netherlands until May 1, 2015 an assumption was required for the future pension accrual rate. If the fixed premium did not cover the cost of the target accrual of 1.85% per annum a lower percentage must be applied for which the cost will be covered by the fixed premium. The Fund in the Netherlands has set aside part of the EUR 600 million received for active members accrual or indexation. The accrual rate for the next 5 years starting 2015 was expected to be 1.85% but per 31 December 2014 the average future accrual rate used to calculate the defined-benefit obligation and service cost was fixed at 1.74% as after the five year period a lower percentage would apply assuming the current fixed premium level. Per May 1, 2015 this no longer applies due to the change to DC.

The average duration of the defined-benefit obligation of the pension plans is 10 years (2014: 12 years).



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