signify

Press Release

July 26, 2019

Signify reports second quarter sales of EUR 1.5 billion, operational profitability of 9.0% and free cash flow of EUR 121 million

Second quarter 2019[1]

- Signify's installed base of connected light points increased from 47 million in Q1 19 to 50 million in Q2 19
- CSG growing profit engines -2.3%; CSG total Signify -6.1%
- LED-based comparable sales grew by 0.2% to 77% of sales (Q2 18: 70%)
- Adj. indirect costs down EUR 37 million on a currency comparable basis, a reduction of 8%, or 60 bps of sales
- Adj. EBITA margin improved by 60 bps to 9.0%, including currency impact of +20 bps
- Net income improved by 73% to EUR 50 million (Q2 18: EUR 29 million)
- Free cash flow amounted to EUR 121 million (Q2 18: EUR -31 million), mainly driven by higher income and phasing of payables and receivables

Half year 2019[1]

- CSG growing profit engines -0.7%; CSG total Signify -4.7%
- LED-based comparable sales grew by 1.9% to 76% of sales (H1 18: 69%)
- Adj. indirect costs down EUR 77 million on a currency comparable basis, a reduction of 8%, or 120 bps of sales
- Adj. EBITA margin improved by 70 bps to 8.4%, despite currency impact of -60 bps
- Net income improved to EUR 95 million (H1 18: EUR 49 million)
- Free cash flow increased to EUR 175 million (H1 18: EUR -37 million)

Eindhoven, the Netherlands – Signify (Euronext: LIGHT), the world leader in lighting, today announced the company's 2019 second quarter results. "We are satisfied with the ongoing improvement in the operational profitability and cash generation of our businesses in the second quarter. Sales declined mainly due to economic headwinds in Europe and non-recurring country-specific developments in growth markets," said CEO Eric Rondolat. "While market conditions remain challenging, the solid momentum in our growth platforms, our relentless focus on operational efficiencies and our strong free cash flow profile position us well for the future."

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

Signify

Outlook

We confirm our outlook that in 2019 our growing profit engines (LED, Professional and Home combined) are expected to deliver a comparable sales growth in the range of 2% to 5%. Our cash engine, Lamps, is expected to decline at a slower pace than the market, in the range of -21% to -24% on a comparable basis. For total Signify, we aim to reach an Adjusted EBITA margin in 2019 within the range of 11% to 13% set at the time of the IPO in May 2016. In 2019, we expect free cash flow, excluding the positive impact from IFRS 16, to be above 5% of sales.

Financial review

Second quarter				Six months		
2018	2019	change	*in € million, except percentages*	2018	2019	change
		-6.1%	**Comparable sales growth**			**-4.7%**
		1.7%	*Effects of currency movements*			*1.4%*
		0.5%	*Consolidation and other changes*			*0.6%*
1,537	**1,477**	-3.9%	**Sales**	**3,038**	**2,955**	-2.7%
583	557	-4.4%	Adjusted gross margin	1,163	1,114	-4.2%
37.9%	**37.7%**		**Adj. gross margin (as % of sales)**	**38.3%**	**37.7%**	
-405	-383		Adj. SG&A expenses	-822	-778	
-73	-67		Adj. R&D expenses	-153	-136	
-478	-449	6.0%	Adj. indirect costs	-976	-914	6.3%
31.1%	**30.4%**		**Adj. indirect costs (as % of sales)**	**32.1%**	**30.9%**	
130	133	2.1%	Adjusted EBITA	235	247	5.1%
8.4%	**9.0%**		**Adjusted EBITA margin**	**7.7%**	**8.4%**	
-53	-28		Adjusted items	-96	-50	
77	104	35.2%	EBITA	140	198	41.5%
54	**80**	**48.0%**	**Income from operations (EBIT)**	**94**	**149**	**59.3%**
-13	-12		Net financial income/expense	-23	-21	
-12	-19		Income tax expense	-22	-35	
29	**50**	**72.6%**	**Net income**	**49**	**95**	**91.6%**
-31	121		Free cash flow	-37	175	
0.23	0.41		Basic EPS (€)	0.38	0.76	
30,097	28,144		Employees (FTE)	30,097	28,144	

Second quarter

Sales amounted to EUR 1,477 million. Adjusted for 1.7% positive currency effects, comparable sales decreased by 6.1%, with LED-based sales increasing by 0.2% and now accounting for 77% of total sales. The adjusted gross margin declined by 20 bps to 37.7% due to lower sales volumes and price erosion, largely offset by ongoing procurement savings. Adjusted indirect costs decreased by EUR 29 million, or 70 bps as a percentage of sales, as a result of our ongoing cost reduction initiatives. Adjusted EBITA amounted to EUR 133 million compared with EUR 130 million in the same period last year. The Adjusted EBITA margin improved by 60 bps to 9.0%, despite a sales decline, and includes a currency impact of +20 bps. Total restructuring costs were EUR 14 million and other incidentals were also EUR 14 million.

Net income increased from EUR 29 million last year to EUR 50 million in Q2 19, mainly as a result of better operational profitability and lower restructuring costs. Free cash flow, which included a positive impact of EUR 17 million related to IFRS 16, amounted to EUR 121 million, mainly driven by higher income and the phasing of payables and receivables. The effect of phasing is estimated to represent around half of the free cash flow in the quarter.

Road to Excellence

In 2018, we initiated a major five-year journey, ‘Road to Excellence’, to continue to transform at a fast pace, achieve unequalled customer satisfaction and achieve organizational excellence. To achieve this, we constantly focus on enhancing our capabilities by lean process improvements and building on our quality culture.

As part of this journey, we have introduced Project Horizon. This company-wide project includes a significant number of cross-company opportunities that will further strengthen our execution capabilities and is expected to drive top-line growth, enhance operational efficiencies, and free up working capital between now and the end of 2020.

Growing profit engines

in € million, except percentages	**CSG**		**Adj. EBITA margin**	
	Q2 18	**Q2 19**	**Q2 18**	**Q2 19**
LED	0.0%	-1.8%	10.6%	12.0%
Professional	3.6%	-5.6%	8.4%	8.8%
Home	-5.9%	19.0%	-27.9%	-7.8%
LED, Professional and Home combined	**1.4%**	**-2.3%**	**6.5%**	**8.5%**

** Excluding non-allocated free cash flow items (e.g. tax, interest) that are accounted for in Other*

Second quarter

Performance in the second quarter reflects a more challenging macro environment. Comparable sales growth of our growing profit engines was -2.3%. We experienced a lower level of market activity, most notably in Europe and were impacted by non-recurring country-specific developments in Saudi Arabia and India in Professional. Our growth platforms, connected systems, IoT platform services, horticulture, solar, and LiFi, show solid momentum. The Adjusted EBITA margin of the growing profit engines improved by 200 bps to 8.5%, with all three business groups contributing to this improvement.

LED

Second quarter				Six months		
2018	2019	change	*in € million, unless otherwise indicated*	2018	2019	change
		-1.8%	Comparable sales growth			-1.0%
443	445	0.4%	Sales	887	894	0.7%
47	53	13.8%	Adjusted EBITA	90	107	19.5%
10.6%	12.0%		Adjusted EBITA margin	10.1%	12.0%	
43	49	12.4%	EBITA	85	100	18.3%
42	48	12.6%	Income from operations (EBIT)	83	98	18.7%

Second quarter
Sales amounted to EUR 445 million, a decrease of 1.8% on a comparable basis. LED lamps delivered a solid performance while sales in LED electronics continued to be impacted by lower customer demand, most notably in Europe. Adjusted EBITA increased by 13.8% to EUR 53 million, mainly driven by ongoing procurement savings and lower indirect costs. This resulted in an Adjusted EBITA margin improvement of 140 bps to 12.0%.

Professional

Second quarter				Six months		
2018	2019	change	*in € million, unless otherwise indicated*	2018	2019	change
		-5.6%	Comparable sales growth			-3.7%
652	632	-3.2%	Sales	1,245	1,231	-1.2%
55	55	1.2%	Adjusted EBITA	86	87	1.8%
8.4%	8.8%		Adjusted EBITA margin	6.9%	7.1%	
29	42	42.8%	EBITA	58	66	13.6%
8	20	137.5%	Income from operations (EBIT)	15	21	36.7%

Second quarter
Comparable sales decreased by 5.6% to EUR 632 million, due to a lower level of market activity in Europe, and the temporary impact of SASO product re-certification in Saudi Arabia and elections in India. We experienced softening demand for public & outdoor projects, most notably in Europe, while the Americas and China had a robust performance. We have a solid order backlog and project pipeline for the second half of 2019, most notably in the Middle East and in façade lighting in China. Adjusted EBITA amounted to EUR 55 million, which resulted in an improvement in the Adjusted EBITA margin of 40 bps to 8.8% as procurement and indirect cost savings more than offset the negative impact of price and mix.

Home

Second quarter				Six months		
2018	2019	change	*in € million, unless otherwise indicated*	2018	2019	change
		19.0%	Comparable sales growth			21.8%
89	107	20.4%	Sales	181	222	22.9%
-25	-8	66.5%	Adjusted EBITA	-46	-15	66.8%
-27.9%	-7.8%		Adjusted EBITA margin	-25.5%	-6.9%	
-29	-10	66.1%	EBITA	-51	-17	66.7%
-29	-10	65.2%	Income from operations (EBIT)	-52	-18	65.7%

Second quarter
Sales amounted to EUR 107 million, an increase of 19.0% on a comparable basis, on the back of a strong performance in Europe as we continued to experience robust demand for connected offers. Adjusted EBITA increased by EUR 17 million to EUR -8 million thereby improving the Adjusted EBITA margin from -27.9% to -7.8%.

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Cash engine - Lamps

Second quarter				Six months		
2018	2019	change	*in € million, unless otherwise indicated*	2018	2019	change
		-20.3%	Comparable sales growth			-19.1%
351	286	-18.5%	Sales	722	595	-17.6%
74	56	-24.8%	Adjusted EBITA	153	119	-22.1%
21.2%	19.5%		Adjusted EBITA margin	21.2%	20.0%	
72	50	-30.0%	EBITA	134	111	-17.1%
72	50	-29.9%	Income from operations (EBIT)	133	111	-17.0%

Second quarter
Sales amounted to EUR 286 million, a comparable decrease of 20.3%. Our cash engine continues to deliver on its ‘last man standing’ strategy, which resulted in further market share gains and solid free cash flow generation. The Adjusted EBITA margin remained robust at 19.5%.

Other

Second quarter
Other represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions. Adjusted EBITA amounted to EUR -24 million (Q2 18: EUR -21 million). EBITA amounted to EUR -27 million (Q2 18: EUR -38 million), including restructuring costs of EUR 3 million (Q2 18: EUR 8 million). There were no other incidental items that were not part of the Adjusted EBITA this quarter (Q2 18: EUR 9 million, mainly related to the company name change).

Sales by market

Second quarter					Six months			
2018	2019	Change	CSG*	*in € million, except percentages*	2018	2019	change	CSG*
533	500	-6.1%	-6.3%	Europe	1,093	1,033	-5.5%	-5.4%
452	433	-4.2%	-8.1%	Americas	874	862	-1.3%	-5.2%
469	458	-2.3%	-4.7%	Rest of the World	903	890	-1.4%	-4.0%
84	86	2.0%	-1.5%	Global businesses	169	170	0.9%	-1.3%
1,537	**1,477**	**-3.9%**	**-6.1%**	**Total**	**3,038**	**2,955**	**-2.7%**	**-4.7%**

Horticulture is included in Market Groups Europe, Americas and Rest of the World (was previously part of Global businesses)

Second quarter
Comparable sales in Europe decreased by 6.3%, mainly reflecting challenging market conditions in Germany, Italy and France. Comparable sales in the Americas decreased by 8.1%, mainly driven by the ongoing decline of conventional and lower demand in the consumer channel of LED lamps. In the Rest of the World, comparable sales decreased by -4.7%, with a solid performance in China and Indonesia offset by Saudi Arabia and India.

Working capital

in € million, unless otherwise indicated	30 Jun '18	31 Mar '19	30 Jun '19
Inventories	1,009	943	999
Receivables	1,243	1,231	1,203
Accounts and notes payable	-967	-971	-1,052
Accrued liabilities	-414	-431	-460
Other working capital items	-178	-185	-187
Working capital	**694**	**587**	**503**
As % of LTM* sales	10.5%	9.3%	8.0%

* LTM: Last Twelve Months

Second quarter
Working capital decreased by EUR 191 million to EUR 503 million and by 250 basis points to 8.0% as a percentage of sales, compared with the end of June 2018, including the above-mentioned phasing of payables and receivables. This performance reflects the company's continued focus on improving working capital.

Cash flow analysis

Second quarter			Six months	
2018	2019	in € million	2018	2019
54	80	Income from operations (EBIT)	94	149
58	67	Depreciation and amortization	116	137
53	29	Additions to (releases of) provisions	107	70
-62	-53	Utilizations of provisions	-121	-110
-84	56	Change in working capital	-125	27
-6	-6	Interest paid	-11	-10
-22	-20	Income taxes paid	-56	-39
-22	-27	Net capex	-43	-37
-1	-8	Other	2	-12
-31	**121**	**Free cash flow**	**-37**	**175**

Second quarter
Free cash flow amounted to EUR 121 million, including a positive impact of EUR 17 million related to IFRS 16, compared with EUR -31 million in the same period last year. The increase in free cash flow is mainly driven by a reduction in working capital, which included the above-mentioned phasing of payables and receivables. The effect of phasing is estimated to represent around half of the free cash flow in the quarter. Free cash flow also included a lower restructuring pay-out of EUR 27 million (Q2 18: EUR 33 million).

Net debt

in € million	30 Jun '18	31 Mar '19	30 Jun '19
Short-term debt	101	151	147
Long-term debt	1,185	1,370	1,339
Gross debt	1,286	1,521	1,486
Cash and cash equivalents	598	733	621
Net debt	**688**	**789**	**865**
Total equity	**2,133**	**2,208**	**2,056**

Second quarter

Net debt amounted to EUR 865 million, an increase of EUR 76 million compared with the end of March 2019 mainly due to dividend distribution of EUR 164 million which was partly offset by strong free cash flow generation. Total equity decreased to EUR 2,056 million at the end of Q2 19 (end of March 2019: EUR 2,208 million), primarily due to dividend distribution and currency translation results, partly offset by net income.

Other information

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

Conference call and audio webcast
Eric Rondolat (CEO) and Stéphane Rougeot (CFO) will host a conference call for analysts and institutional investors at 9:00 a.m. CET to discuss second quarter and first half 2019 results. A live audio webcast of the conference call will be available via the Investor Relations website.

Financial calendar

25 October 2019	Third quarter results 2019
12 December 2019	Capital Markets Day 2019

For further information, please contact:

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About Signify
Signify (Euronext: LIGHT) is the world leader in lighting for professionals and consumers and lighting for the Internet of Things. Our Philips products, Interact connected lighting systems and data-enabled services, deliver business value and transform life in homes, buildings and public spaces. With 2018 sales of EUR 6.4 billion, we have approximately 28,000 employees and are present in over 70 countries. We unlock the extraordinary potential of light for brighter lives and a better world. We have been named Industry Leader in the Dow Jones Sustainability Index for two years in a row. News from Signify is located at the Newsroom, Twitter, LinkedIn and Instagram. Information for investors can be found on the Investor Relations page.

Important Information

Forward-Looking Statements and Risks & Uncertainties

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

By their nature, these statements involve risks and uncertainties facing the Company and its Group Companies and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, reputational and adverse effects on business due to activities in Environment, Health & Safety, compliance risks, ability to attract and retain talented personnel, establishment of corporate and brand identity, adverse currency effects, pension liabilities, and exposure to international tax laws. Please see "Risk Factors and Risk Management" in Chapter 12 of the Annual Report 2018 for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Company's Annual Report 2018.

Looking ahead to the second half of 2019, the Group is primarily concerned about the challenging economic conditions and political uncertainties, for example related to the impact of the recently imposed import tariffs, in the global and domestic markets in which it operates. Additional risks currently not known to the Group or that the Group has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group or could cause the forward-looking events discussed in this document not to occur. The Group undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

Market and Industry Information

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

Non-IFRS Financial Measures

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Group's business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see "Chapter 18 Reconciliation of non-IFRS measures" in the Annual Report 2018.

Presentation

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided. All reported data are unaudited. Unless otherwise indicated, financial information has been prepared in accordance with the accounting policies as stated in the Annual Report 2018 and semi-annual report 2019.

Market Abuse Regulation

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

Unaudited condensed consolidated interim financial statements

For the six-month period ended June 30, 2019

Index to the unaudited condensed consolidated interim financial statements

Semi-annual report

Introduction

The semi-annual report for the six-month period ended June 30, 2019 of Signify N.V. (the ‘Company’) consists of the semi-annual condensed consolidated interim financial statements, the semi-annual management report and the responsibility statement by the Company’s Board of Management.

The main risks and uncertainties for the second half of 2019 are addressed in the first part of the press release - please refer to the section ‘Important Information’.

The information in this semi-annual report is unaudited. The semi-annual condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company’s Consolidated financial statements for the year ended December 31, 2018.

Responsibility statement

The Board of Management of the Company hereby declares that, to the best of its knowledge, the semi-annual condensed consolidated interim financial statements for the six-month period ended June 30, 2019, which have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the semi-annual management report for the six-month period ended June 30, 2019, gives a fair view of the information required pursuant to Section 5:25d(8)-(9) of the Dutch Financial Markets Supervision Act (Wet op het Financieel toezicht).

Eindhoven, July 26, 2019

Board of Management

Eric Rondolat
Stéphane Rougeot
René van Schooten

Management report

Business performance [1)]

First half 2019

Sales amounted to EUR 2,955 million, a decrease of 2.7% on a nominal basis. Adjusted for 1.4% currency effect and 0.6% consolidation and other impact, comparable sales were 4.7% lower than in the first half of 2018. Comparable LED-based sales grew by 1.9% and accounted for 76% of total sales. The adjusted indirect cost base reduced by EUR 62 million, improving by 120 basis points to 30.9% of sales. The Adjusted EBITA margin was 8.4% compared with 7.7% in the same period last year, as currency effects negatively impacted performance by 60 basis points. Net income was EUR 95 million compared with EUR 49 million last year mainly as a result of EUR 12 million higher Adjusted EBITA and EUR 46 million lower restructuring costs and other incidentals. The effective tax rate for the first half of 2019 was 27.4% compared with 30.8% in 2018. The decrease in the effective tax rate was primarily due to higher year to date income. Compared with the end of June 2018, working capital as percentage of sales decreased by 250 basis points to 8.0% of sales, reflecting continued focus on improving working capital and includes an impact from phasing of payables & receivables. Free cash flow amounted to EUR 175 million, compared with EUR -37 million last year and included a positive impact of EUR 34 million from IFRS 16.

Growing profit engines

Our growing profit engines, LED, Professional and Home, represent the foundations Signify is building and investing in, in line with our strategy to move to LED and connectivity, unleashing new growth platforms. These include connected systems, IoT platform services, horticulture, solar, and LiFi. Comparable sales of these three business groups combined declined by 0.7%, mainly reflecting a lower level of market activity in Europe which impacted Professional and LED electronics. The Adjusted EBITA margin of the growing profit engines combined improved by 200 basis points to 7.6%.

LED

Sales were EUR 894 million, an increase of 0.7% on a nominal basis and a decline of 1.0% on a comparable basis. LED lamps showed a solid performance while sales in LED electronics slowed down in Europe. Income from operations amounted to EUR 98 million. EBITA of EUR 100 million included EUR 7 million of restructuring and other incidental costs. The Adjusted EBITA margin improved by 190 basis points to 12.0%, mainly driven by ongoing procurement savings and lower indirect costs.

Professional

Sales were EUR 1,231 million, reflecting a nominal sales decline of -1.2% and -3.7% on a comparable basis, due to a lower level of market activity in Europe, while the Americas had a solid performance. After lower market activity in China in the second half of 2018, performance in this market started to improve in the course of the first half of 2019. Income from operations was EUR 21 million compared with EUR 15 million in the same period last year. EBITA amounted to EUR 66 million, compared with EUR 58 million in the first half of 2018. It included restructuring and other incidental costs of

1) This section contains certain non-IFRS financial measures and ratios, such as comparable sales growth, EBITA, Adjusted EBITA, free cash flow, and related ratios, which are not recognized measures of financial performance or liquidity under IFRS. For a reconciliation of these non-IFRS financial measures to the most directly comparable IFRS measures, see “Reconciliation of non-IFRS financial measures”.

EUR 22 million. Adjusted EBITA amounted to EUR 87 million compared with EUR 86 million in the first half of 2018. The Adjusted EBITA margin improved by 20 basis points to 7.1%, as continued procurement and indirect cost savings more than offset the negative impact of price, mix and currencies.

Home

Sales amounted to EUR 222 million, with a nominal sales increase of 22.9% and an increase of 21.8% on a comparable basis. This was driven by a strong performance in Europe as the business group continued to experience robust demand for connected offers. Income from operations was EUR -18 million, a significant improvement compared with EUR -52 million last year. EBITA amounted to EUR -17 million. Restructuring and other incidental costs amounted to EUR 2 million in the first half of 2019.

Cash engine - Lamps

Sales amounted to EUR 595 million, a decline of 17.6% on a nominal basis and 19.1% on a comparable basis, which is estimated to be lower than the market decline, resulting in continued market share gains. Income from operations reduced to EUR 111 million due to the decline in sales, partly offset by pro-active rationalization of the manufacturing footprint and lower indirect costs. EBITA amounted to EUR 111 million compared with EUR 134 million in the first half of 2018. This includes EUR 8 million of restructuring costs and other incidental costs. The Adjusted EBITA margin remained solid at 20.0%. Adjusted EBITA amounted to EUR 119 million.

Other

Reported EBITA amounted to EUR -62 million. This represents amounts not allocated to the operating segments and includes certain costs related to group enabling functions as well as central R&D activities to drive innovation. Adjusted EBITA amounted to EUR -51 million, compared with EUR -47 million in the same period last year. Restructuring and other incidental costs were EUR 11 million.

I Condensed consolidated financial statements

I.1 Condensed consolidated statements of income

In millions of EUR unless otherwise stated

	Second quarter		January to June	
	2018	2019	2018	2019
Sales	1,537	1,477	3,038	2,955
Cost of sales	(970)	(926)	(1,906)	(1,852)
Gross margin	**567**	**551**	**1,132**	**1,103**
Selling, general and administrative expenses	(428)	(404)	(858)	(813)
Research and development expenses	(78)	(68)	(173)	(139)
Impairment of goodwill	-	-	-	-
Other business income	3	1	5	3
Other business expenses	(10)	(0)	(12)	(4)
Income from operations	**54**	**80**	**94**	**149**
Financial income	3	3	7	8
Financial expenses	(17)	(14)	(30)	(29)
Results relating to investments in associates	0	1	0	1
Income before taxes	**41**	**69**	**71**	**130**
Income tax expense	(12)	(19)	(22)	(35)
Net income	**29**	**50**	**49**	**95**
Attribution of net income for the period:				
Net income (loss) attributable to shareholders of Signify N.V.	31	52	52	96
Net income (loss) attributable to non-controlling interests	(2)	(2)	(3)	(2)
Earnings per common share attributable to shareholders				
Weighted average number of ordinary shares outstanding used for calculation (in thousands):				
• Basic	136,353	126,116	137,386	126,127
• Diluted	136,809	127,403	137,856	127,226
Net income attributable to shareholders per ordinary share in EUR:				
• Basic	0.23	0.41	0.38	0.76
• Diluted	0.23	0.41	0.38	0.76

The accompanying notes are an integral part of these condensed consolidated financial statements.

1.2 Condensed consolidated statements of comprehensive income

In millions of EUR

	Second quarter		January to June	
	2018	2019	2018	2019
Net income for the period	**29**	**50**	**49**	**95**
Pensions and other post-employment plans:				
• Remeasurements	(3)	-	(6)	(2)
• Income tax effect on remeasurements	-	-	-	-
Total of items that will not be reclassified to profit or loss	**(3)**	**-**	**(6)**	**(2)**
Currency translation differences:				
• Net current period change, before tax	115	(27)	51	17
• Income tax effect	-	0	-	(1)
Cash flow hedges:				
• Net current period change, before tax	(11)	(12)	(1)	5
• Income tax effect	1	3	(1)	(0)
Total of items that are or may be reclassified to profit or loss	**104**	**(36)**	**48**	**21**
Other comprehensive income (loss)	**102**	**(36)**	**43**	**18**
Total comprehensive income (loss)	**131**	**14**	**92**	**113**
Total comprehensive income (loss) attributable to:				
• Shareholders of Signify N.V.	128	16	93	114
• Non-controlling interests	3	(2)	(0)	(1)

The accompanying notes are an integral part of these condensed consolidated financial statements.

I.3 Condensed consolidated statements of financial position

In millions of EUR

	December 31, 2018		June 30, 2019	
Non-current assets				
Property, plant and equipment				
• At cost	2,230		2,467	
• Less accumulated depreciation	(1,798)		(1,858)	
		431		609
Goodwill		1,771		1,812
Intangible assets, excluding goodwill				
• At cost	2,065		2,100	
• Less accumulated amortization	(1,572)		(1,637)	
		493		463
Non-current receivables		38		42
Investments in associates		11		13
Other non-current financial assets		20		18
Deferred tax assets		399		402
Other non-current assets		49		53
Total non-current assets		**3,211**		**3,413**
Current assets				
Inventories		878		999
Current financial assets		4		3
Other current assets		107		124
Derivative financial assets		28		13
Income tax receivable		35		37
Receivables:				
• Accounts receivable	1,167		1,124	
• Other current receivables	64		79	
Receivables		1,231		1,203
Assets classified as held for sale		9		7
Cash and cash equivalents		676		621
Total current assets		**2,969**		**3,007**
Total assets		**6,181**		**6,420**

Equity		
Shareholders' equity	2,041	1,979
Non-controlling interests	78	77
Total equity	**2,119**	**2,056**
Non-current liabilities		
Long-term debt	1,187	1,339
Long-term provisions	712	695
Deferred tax liabilities	19	17
Other non-current liabilities	173	165
Total non-current liabilities	**2,091**	**2,216**
Current liabilities		
Short-term debt	78	147
Derivative financial liabilities	22	13
Income tax payable	15	21
Accounts and notes payable	953	1,052
Accrued liabilities	444	460
Short-term provisions	168	143
Liabilities directly associated with assets classified as held for sale	0	0
Other current liabilities	288	311
Total current liabilities	**1,970**	**2,147**
Total liabilities and total equity	**6,181**	**6,420**

The accompanying notes are an integral part of these condensed consolidated financial statements.

1.4 Condensed consolidated statements of cash flows

In millions of EUR

	Second quarter		January to June	
	2018	2019	2018	2019
Cash flows from operating activities				
Net income (loss)	29	50	49	95
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	135	126	267	258
• Depreciation, amortization and impairment of non-financial assets	58	67	116	137
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	0	-	1	(0)
• Net gain on sale of assets	(1)	(1)	(2)	(1)
• Interest income	(3)	(3)	(6)	(8)
• Interest expense on debt, borrowings and other liabilities	7	8	15	16
• Income tax expense	12	19	22	35
• Additions to (releases of) provisions	53	29	107	70
• Other items	8	7	13	8
Decrease (increase) in working capital:	(84)	56	(125)	27
• Decrease (increase) in receivables	12	22	111	43
• Decrease (increase) in inventories	(31)	(60)	(86)	(113)
• Increase (decrease) in accounts payable	(11)	89	(47)	92
• Increase (decrease) in other current assets, accrued and other current liabilities	(55)	6	(103)	5
Increase (decrease) in non-current receivables, other assets and other liabilities	0	(7)	3	(8)
Utilizations of provisions	(62)	(53)	(121)	(110)
Interest received (paid)	(6)	(6)	(11)	(10)
Income taxes paid	(22)	(20)	(56)	(39)
Net cash provided by (used for) operating activities	**(9)**	**147**	**6**	**212**
Cash flows from investing activities				
Net capital expenditures:	(22)	(27)	(43)	(37)
• Additions of intangible assets	(5)	(12)	(12)	(16)
• Capital expenditures on property, plant and equipment	(18)	(16)	(33)	(23)
• Proceeds from disposal of property, plant and equipment	1	1	1	2
Net proceeds from (cash used for) derivatives and current financial assets	(19)	(2)	(3)	2
Proceeds from other non-current financial assets	0	1	1	1
Purchases of other non-current financial assets	(1)	(2)	(4)	(2)
Purchases of businesses, net of cash acquired	5	(20)	5	(20)
Proceeds from sale of interests in businesses, net of cash disposed of	0	5	(0)	5
Net cash provided by (used for) investing activities	**(36)**	**(45)**	**(45)**	**(50)**
Cash flows from financing activities				
Dividend paid	(171)	(164)	(171)	(164)
Proceeds from issuance (payments) of debt	(14)	(27)	(31)	(53)
Purchase of treasury shares	(33)	(6)	(104)	(6)
Net cash provided by (used for) financing activities	**(218)**	**(197)**	**(306)**	**(224)**
Net cash provided by (used for) operations	**(264)**	**(94)**	**(344)**	**(62)**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts	26	(5)	7	9
Cash and cash equivalents and bank overdrafts at the beginning of the period [1)]	825	712	925	664
Cash and cash equivalents and bank overdrafts at the end of the period [2)]	**588**	**612**	**588**	**612**
Non-cash investing and financing activities:				
Acquisition of fixed asset by means of leases		10		13

For the six-month period ended June 30, 2019, non-cash investing and financing activities also included the impact from the adoption of IFRS 16 (refer to paragraph 2.2, Basis of preparation) and EUR 19 million of deferred settlement of considerations from acquisition of businesses.

1) For Q2 2019 and Q2 2018, this included bank overdrafts of EUR 20 million and EUR 8 million, respectively. For the first half of 2019 and the first half of 2018, this included bank overdrafts of EUR 12 million and EUR 17 million, respectively.

2) Included bank overdrafts of EUR 9 million and EUR 10 million as of June 30, 2019 and 2018, respectively.

The accompanying notes are an integral part of these condensed consolidated financial statements.

1.5 Condensed consolidated statements of changes in equity

In millions of EUR

	Share capital	Share premium	Retained earnings	Currency translation differences	Cash flow hedges	Treasury shares	Total share-holders' equity	Non-controlling interests	Equity
Balance as of January 1, 2018	**1**	**2,163**	**287**	**(87)**	**1**	**(124)**	**2,242**	**79**	**2,321**
Adoption of IFRS 9 (net of tax)	-	-	(11)	-	-	-	(11)	(3)	(14)
Restated balance as of January 1, 2018	**1**	**2,163**	**276**	**(87)**	**1**	**(124)**	**2,231**	**76**	**2,307**
Net Income	-	-	52	-	-	-	52	(3)	49
Other comprehensive income (loss)	-	-	(6)	49	(3)	-	40	2	43
Total comprehensive income (loss)	**-**	**-**	**47**	**49**	**(3)**	**-**	**93**	**(0)**	**92**
Movement in non-controlling interests	-	-	-	-	-	-	-	1	1
Dividend distributed	-	-	(171)	-	-	-	(171)	-	(171)
Purchase of treasury shares	-	-	-	-	-	(104)	(104)	-	(104)
Cancellation of treasury shares [1]	-	-	(160)	-	-	160	-	-	-
Delivery of treasury shares	-	(1)	-	-	-	1	-	-	-
Share-based compensation plans	-	9	-	-	-	-	9	-	9
Income tax share-based compensation plans	-	-	-	-	-	-	-	-	-
Funding by (distribution to) Royal Philips	-	(1)	-	-	-	-	(1)	-	(1)
Balance as of June 30, 2018	**1**	**2,169**	**(8)**	**(38)**	**(2)**	**(66)**	**2,057**	**76**	**2,133**
Balance as of January 1, 2019	**1**	**2,179**	**(37)**	**(29)**	**(9)**	**(65)**	**2,041**	**78**	**2,119**
Adoption of IFRS 16 (net of tax) [2]	-	-	(12)	-	-	-	(12)	(0)	(12)
Restated balance as of January 1, 2019	**1**	**2,179**	**(48)**	**(29)**	**(9)**	**(65)**	**2,030**	**78**	**2,108**
Net Income	-	-	96	-	-	-	96	(2)	95
Other comprehensive income (loss)	-	-	(2)	15	4	-	18	1	18
Total comprehensive income (loss)	**-**	**-**	**94**	**15**	**4**	**-**	**114**	**(1)**	**113**
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-
Dividend distributed	-	-	(164)	-	-	-	(164)	-	(164)
Purchase of treasury shares	-	-	-	-	-	(6)	(6)	-	(6)
Cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Delivery of treasury shares	-	(2)	(1)	-	-	2	-	-	-
Share-based compensation plans	-	6	-	-	-	-	6	-	6
Income tax share-based compensation plans	-	-	-	-	-	-	-	-	-
Balance as of June 30, 2019	**1**	**2,183**	**(119)**	**(13)**	**(4)**	**(69)**	**1,979**	**77**	**2,056**

1) Prior period amounts have been adjusted to reflect a revised split between share premium and retained earnings.
2) Refer to paragrah 2.2, Basis of preparation.

The accompanying notes are an integral part of these condensed consolidated financial statements.

2 Notes to the condensed consolidated interim financial statements

All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided

2.1 Reporting entity

Signify N.V. is a public company with limited liability incorporated under the laws of the Netherlands and listed on Euronext Amsterdam under the symbol 'LIGHT'.

As used herein, the term Signify is used for Signify N.V. ('the Company') and its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code.

The Company was incorporated as a private limited liability company on February 1, 2016 and converted into a public company with limited liability on May 31, 2016. On May 15, 2018, the name of the Company changed from Philips Lighting N.V. to Signify N.V. The corporate seat of the Company is in Eindhoven, the Netherlands and its registered office is at High Tech Campus 48, 5656 AE Eindhoven. The Company is registered in the Commercial Register of the Chamber of Commerce under number 65220692.

Separation from Royal Philips

On February 1, 2016, Koninklijke Philips N.V. ('Royal Philips') and Philips Lighting Holding B.V. entered into the Separation Agreement and a set of ancillary agreements, together effecting the Separation of their respective businesses and providing a framework for the relationship between Royal Philips and Signify thereafter (the 'Separation'). For more information regarding the Separation, please refer to note 1 in the Consolidated financial statements for the year ended December 31, 2018.

2.2 Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

Except for the changes disclosed below, the accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in chapter 14.6 of the Consolidated financial statements for the year ended December 31, 2018. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the condensed consolidated interim financial statements of Signify.

IFRS 16 leasing

IFRS 16 replaced IAS 17 Leases and became effective on January 1, 2019. Under the new lease standard, assets leased by the Company are being recognized in the statements of financial position with a corresponding lease liability.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted IFRS 16 using the modified retrospective transition method (also referred to as cumulative effect method) with the date of initial application of January 1, 2019. This means that comparative figures were not restated and the cumulative effect of the initial application of the standard is accounted for as an adjustment to the opening balance of equity as at the date of initial application.

Transition and impact assessment

Lease contracts that have a meaningful impact on the company's (condensed) consolidated (interim) financial statements relate to real estate, car fleet and IT equipment. In selecting which practical expedients to apply, the Company focused on reducing the complexity of implementation and:

- applied the exemption not to recognize right-of-use assets and liabilities for leases of low value assets (mainly laptops)
- for real estate leases, applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease terms. These include leases with a remaining lease term of 12 months or less at the transition date
- adjusted the right-of-use asset by the amount of any provisions for onerous lease contracts recognized under IAS 37 to approximate impairment.

The effect of the adoption of IFRS 16 to the statements of financial position as of January 1, 2019 is as follows:

In millions of EUR	
Assets	
Property, plant and equipment	222
Deferred tax assets	2
Non-current assets	9
Current assets	5
Total assets	**238**
Equity	
Retained earnings	(12)
Total equity	**(12)**
Liabilities	
Long-term debt	214
Provisions	(9)
Short-term debt	45
Total liabilities	**250**

Property, plant and equipment increased by EUR 222 million due to the recognition of right-of-use-assets. Current and non-current assets increased by EUR 14 million due to the inclusion of sublease receivables. Provisions decreased by EUR 9 million, relating to the derecognition of onerous lease provisions, which was recognized as an adjustment to right-of-use assets upon transition to IFRS 16.

The effect of the adoption of IFRS 16 had no impact on the Company's sales, while the Income from operations is positively impacted by approximately EUR 6 million for the six-month period ended June 30, 2019. This is caused by operating lease expenses being replaced by depreciation, service costs and interest expenses, of which the latter is not recognized in Income from operations.
In addition, the cash flow from operating activities for the six-month period ended June 30, 2019, was positively impacted by around EUR 34 million as, under the new standard, cash payments for the principal part of the lease liability are classified in the cash flow from financing activities instead of in the cash flow from operating activities.

The Company foresees no impact of the adoption of IFRS 16 on compliance with debt covenants.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate at the date of initial application.

The lease liabilities as of January 1, 2019 reconcile to the operating lease commitments as of December 31, 2018, as follows:

In millions of EUR	
Operating lease commitments as of December 31, 2018	285
Discounting impact	(23)
Short term leases	(5)
Derecognition of lease liabilities for IT equipment	(9)
Other impacts	11
IFRS16 opening balance impact on lease liabilities as of January 1, 2019	**259**

Other impacts include, among others, adjustments made as a result of a different treatment of extension and termination options. The Company applied a weighted average discount rate of 3.1% for real estate and a single discount rate of 1.5% for cars.

Summary of new accounting policies

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include (in-substance) fixed payments (less any lease incentives), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases for real estate (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. When determining the lease term, Signify considers all relevant facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. These circumstances include the Company's strategic plans, the industrial footprint of the Company and Business Group and the importance of the site to the Company's operations.

Estimates

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from the estimates.

Except for the judgment and estimates mentioned in relation to the adoption of IFRS 16, the significant estimates and judgments in preparing the condensed consolidated interim financial statements, made by management in applying the accounting policies and the sources of estimation uncertainty, were the same as those applied to the Company's Consolidated financial statements for the year ended December 31, 2018.

2.3 Notes

1 Information by segment and main country

Operating segments are components of the company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Board of Management of the Company). The operating segments are Lamps, LED, Professional and Home. The segments are organized based on the nature of the products and services. 'Other' represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions.

The following is an overview of Signify revenues and results by segment:

In millions of EUR

	Second quarter					January to June				
	Sales to external customers	Sales including intersegment	Depreciation and amortization [1]	EBITA [2]	EBITA as a % of sales	Sales to external customers	Sales including intersegment	Depreciation and amortization [1]	EBITA [2]	EBITA as a % of sales
2019										
Lamps	286	288	(7)	50	17.5%	595	598	(15)	111	18.6%
LED	445	485	(3)	49	10.9%	894	969	(7)	100	11.2%
Professional	632	632	(13)	42	6.7%	1,231	1,233	(25)	66	5.3%
Home	107	107	(3)	(10)	(9.1%)	222	223	(8)	(17)	(7.6%)
Other [3]	7	8	(16)	(27)		14	14	(33)	(62)	
Intersegment elimination		(43)					(82)			
Signify	**1,477**	**1,477**	**(43)**	**104**	**7.1%**	**2,955**	**2,955**	**(89)**	**198**	**6.7%**
Amortization [4]				(24)					(49)	
Income from operations				**80**					**149**	
Financial income and expenses				(12)					(21)	
Results relating to investments in associates				1					1	
Income before taxes				**69**					**130**	
2018										
Lamps	351	353	(9)	72	20.4%	722	727	(19)	134	18.5%
LED	443	474	(3)	43	9.8%	887	949	(6)	85	9.6%
Professional	652	652	(11)	29	4.5%	1,245	1,247	(22)	58	4.6%
Home	89	89	(3)	(29)	(32.3%)	181	182	(5)	(51)	(28.1%)
Other [3]	2	4	(9)	(38)		3	7	(18)	(85)	
Intersegment elimination		(36)					(74)			
Signify	**1,537**	**1,537**	**(34)**	**77**	**5.0%**	**3,038**	**3,038**	**(70)**	**140**	**4.6%**
Amortization [4]				(23)					(46)	
Income from operations				**54**					**94**	
Financial income and expenses				(13)					(23)	
Results relating to investments in associates				0					0	
Income before taxes				**41**					**71**	

1) Excluding amortization and impairments of acquisition related intangible assets and goodwill.
2) Income from operations excluding amortization and impairments of acquisition related intangible assets and goodwill ("EBITA").
3) Considering the nature of Other, EBITA as a % of sales for Other is not meaningful.
4) Amortization and impairments of acquisition related intangible assets and goodwill.

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 and tangible and intangible assets are reported based on the country of origin as follows:

In millions of EUR

	Sales		Tangible and intangible assets [1]	
	January to June, 2018	January to June, 2019	December 31, 2018	June 30, 2019
Netherlands	249	240	120	196
United States	650	653	1,803	1,814
China	223	245	86	123
India	209	197	15	21
Germany	219	195	6	17
Saudi Arabia	58	50	174	170
Other countries	1,430	1,376	490	543
Total countries	**3,038**	**2,955**	**2,695**	**2,884**

1) Including goodwill.

2 Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the Consolidated financial statements for the year ended December 31, 2018.

3 Seasonality

The sales trend is influenced by the exposure to the consumer market (in general higher sales in the second half of the year) and the timing of specific larger-sized projects in the segment Professional.

4 Sales

Disaggregated revenue information

Information on sales per segment is disclosed in note 1, Information by segment and main country. For the six-month period ended June 30, 2019, sales consisted primarily (97%) of sales of goods to customers (January to June 2018: 97%), for which revenue is generally recognized at the point in time that the customer obtains control of the goods. Mainly in the Professional segment, revenue from the sale of goods may also be recognized over time.

Remaining sales include revenue from services, sales-and usage-based royalties and leases.
Revenue from services and sales- and usage-based royalties is generally recognized over time. Revenue from leases mainly relates to finance leases, whereby revenue for the leased assets is recognized at the lease commencement date.

Sales by market:

In millions of EUR

	Second quarter		January to June	
	2018	2019	2018	2019
Europe	533	500	1,093	1,033
Americas	452	433	874	862
Rest of the world	469	458	903	890
Global businesses	84	86	169	170
Total	1,537	1,477	3,038	2,955

5 Depreciation, amortization and impairment

Depreciation of property, plant and equipment, amortization of intangible assets and impairment of non-financial assets, are as follows:

In millions of EUR

	January to June	
	2018	2019
Property, plant and equipment	(60)	(78)
Internal-use software	(3)	(3)
Other intangible assets	(46)	(49)
Development costs	(7)	(7)
Total	**(116)**	**(137)**

Depreciation of property, plant and equipment increased by EUR 18 million due to the implementation of IFRS 16 which was partially offset by lower depreciation of other tangible assets.

Depreciation of property, plant and equipment is primarily included in Cost of sales. Amortization of other intangible assets is reported in Selling, general and administrative expenses for brand names and customer relationships and in Cost of sales for technology-based and other intangible assets. Amortization of development costs is included in Research and development expenses.

6 Other business income and expenses

Other business income and expenses consists of the following:

In millions of EUR

	January to June	
	2018	2019
Result on disposal of businesses:		
• Income	0	0
• Expense	(0)	-
Result on disposal of fixed assets:		
• Income	1	1
• Expense	(0)	(0)
Result on other remaining businesses:		
• Income	3	2
• Expense	(12)	(4)
Other business income and expenses	**(7)**	**(1)**
Total other business income	5	3
Total other business expenses	(12)	(4)

For the six-month period ended June 30, 2018, the result on other remaining businesses includes a EUR 8 million expense related to a legal provision for an adverse outcome of an appeal on a jury verdict in Professional, in the United States of America.

7 Income taxes

Income tax expense recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full year.

Income tax expense in the first six months of 2019 increased by EUR 13 million compared to the corresponding period of the previous year, mainly as a result of higher income for the six-month period ended June 30, 2019. The effective tax rate for the six-month period ended June 30, 2019, was 27.1% compared to 30.7% in 2018. The decrease in the effective tax rate is primarily due to higher year-to-date income in 2019.

8 Property, plant and equipment

Property, plant and equipment increased by EUR 178 million during the six-month period ended June 30, 2019, mainly due to the opening balance adjustment of EUR 222 million related to the IFRS 16 implementation (refer to paragraph 2.2). The remaining change mainly relates to depreciation of EUR 76 million (six-month period ended June 30, 2018: EUR 54 million) and additions of EUR 36 million (six-month period ended June 30, 2018: EUR 36 million). The increase in depreciation is caused by first time inclusion of depreciation of right-of-use assets.

9 Goodwill

For information regarding the most recent impairment test of the different cash-generating units, including Professional, reference is made to note 15, Goodwill in the Company's Consolidated financial statements for the year ended December 31, 2018.
No events have been identified by management in the first six months of 2019 that required an update of the mentioned impairment tests.

10 Intangible assets excluding goodwill

Intangible assets other than goodwill decreased by EUR 29 million during the six-month period ended June 30, 2019, mainly due to amortization of EUR 58 million (six-month period ended June 30, 2018: EUR 55 million), partially offset by additions of EUR 17 million (six-month period ended June 30, 2018: EUR 12 million) and other movements including translation differences of EUR 13 million (six-month period ended June 30, 2018: EUR 12 million).

11 Inventories

For the six-month period ended June 30, 2019, the amount of write-down of inventories to realizable value was EUR 7 million (six-month period ended June 30, 2018: EUR 9 million).

In millions of EUR

	December 31, 2018	June 30, 2019
Raw materials	315	352
Work in progress	14	4
Finished goods	550	643
Total	**878**	**999**

12 Equity

Share Capital

The Company has an authorized share capital of EUR 6 million, divided into 300,000,000 ordinary shares with a nominal value of EUR 0.01 per share and 300,000,000 preference shares with a nominal value of EUR 0.01 per share. As of June 30, 2019, the issued share capital of the Company consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share. No preference shares have been issued.

Dividend distribution

In May 2019, the Company settled a dividend of EUR 1.30 per ordinary share, representing a total value of EUR 164 million including costs.

Share repurchases

In June 2019, the Company completed a share repurchase program to cover obligations arising from its share-based compensation plans. The total number of shares repurchased was 240,000 for a total consideration of EUR 6 million.

Treasury shares

As of June 30, 2019, the total number of treasury shares amounted to 2,419,054 which were purchased at an average price of EUR 28.41 per share.

13 Short-term and long-term debt

Short-term and long-term debt relate to financing by local banks and financial institutions.

In millions of EUR

	December 31, 2018	June 30, 2019
Facility (EUR)	737	738
Facility (USD)	437	440
Lease liabilities	18	255
Other Debt	62	44
Subtotal	**1,253**	**1,477**
Bank overdrafts	12	9
Total	**1,265**	**1,486**
Of which:		
Short-term debt	78	147
Long-term debt	1,187	1,339
Total	**1,265**	**1,486**

Short-term and long-term debt includes an increase of EUR 259 million due to lease liabilities from the implementation of IFRS 16 as of January 1, 2019.

There has been no new financing for the EUR and USD facilities. All terms and conditions as disclosed in the latest annual report of the Company remain the same, including status of financial covenants, guarantees, revolving credit facility and the interest margin which remains at 0.65% as of June 30, 2019, based on the level of the Net Leverage Ratio. The Net Leverage Ratio is the ratio of consolidated total net debt as of the test date to consolidated adjusted EBITDA for the preceding 12 months.

Other debt includes various local (bank) loans.

New borrowings and repayments of short-term and long-term debt resulting from financing activities are as follows:

In millions of EUR

	Long-term Debt	Short-term Debt	Total
Balance as of January 1, 2018	**1,170**	**140**	**1,309**
New Borrowings	-	32	32
Repayments	-	(64)	(64)
Transfers	(3)	3	-
Translation differences and other movements	19	(10)	9
Balance as of June 30, 2018	**1,185**	**101**	**1,286**
Balance as of January 1, 2019	**1,187**	**78**	**1,265**
IFRS 16 adoption effect	214	45	259
Restated balance as of January 1, 2019	**1,401**	**123**	**1,524**
New Borrowings	-	1	1
Repayments	-	(55)	(55)
Transfers	(80)	80	-
Translation differences and other movements	18	(2)	16
Balance as of June 30, 2019	**1,339**	**147**	**1,486**

14 Provisions

Provisions are summarized as follows:

In millions of EUR

	December 31, 2018		June 30, 2019	
	Long-term	Short-term	Long-term	Short-term
Provision for post-employment benefits	475	-	473	-
Restructuring related provisions	18	81	15	58
Environmental provisions	95	20	89	23
Product warranty	17	25	17	27
Other provisions	107	42	100	35
Total	**712**	**168**	**695**	**143**

The decrease in provisions was mainly attributable to usage of restructuring related provisions and the implementation of IFRS 16 (refer to paragraph 2.2, Basis of preparation).
With regard to provision for post-employment benefits, no significant market fluctuations occurred during the first six months of 2019 which would require re-measurement under IAS 34.

15 Contingent liabilities

Indemnifications

By way of surety for the fulfilment of Signify's obligations under the Separation Agreement, including the indemnifications granted to Royal Philips, certain major subsidiaries of Signify have provided guarantees to Royal Philips. Conversely, certain major subsidiaries of Royal Philips have provided guarantees to Signify. Refer to note 28 in the Consolidated financial statements for the year ended December 31, 2018.

Environmental remediation

Signify is subject to environmental laws and regulations. Under these laws and regulations, Signify may be required to remediate the effects of certain chemicals on the environment.

Legal proceedings

Signify is involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to commercial transactions, intellectual property disputes, product liability, environmental pollution, labor related disputes and business conduct rules.

For information regarding legal, regulatory and arbitration proceedings in which the Company is involved, please refer to note 27 in the Consolidated financial statements for the year ended December 31, 2018.

16 Share-based compensation

Total share-based compensation costs for Signify for the six-month period ended June 30, 2019, were EUR 9 million (six-months period ended June 30, 2018: EUR 17 million). Of the EUR 9 million share-based compensation costs for the six-month period ended June 30, 2019, EUR 6 million was related to the Signify share-based compensation plans, and the remaining was related to the Royal Philips Long-term Incentive Plan ("Royal Philips LTI Plan"). Of the EUR 17 million share-based compensation costs for the six-month period ended June 30, 2018, EUR 9 million was related to the Signify share-based compensation plans, and the remaining was related to the Royal Philips LTI Plan.

Signify share-based compensation plans

In the six-month period ended June 30, 2019, Signify granted 818,301 performance shares, 315,311 conditional shares and 28,473 restricted shares to its employees and members of the Board of Management. For the same period, a total of 70,111 vested shares (performance, conditional, and restricted) were delivered to Signify employees.

Royal Philips LTI Plan

In the six-month period ended June 30, 2019, a total of 1,294,970 shares (performance and restricted) vested and were delivered to Signify employees and members of the Board of Management of Signify by Royal Philips.

17 Financial assets and liabilities

The estimated fair value of financial instruments has been determined by Signify using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by Signify 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 and financial assets and liabilities carried at amortized cost, the carrying amount is a reasonable approximation of their fair value.

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 financial assets at fair value via other comprehensive income 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.

In millions of EUR

	Level 1	Level 2	Level 3	Total
Balance as of December 31, 2018				
Financial assets at fair value through profit and loss:				
Derivatives designated as hedging instruments	–	28		28
Derivatives not designated as hedging instruments	–	–	2	2
Equity instruments at fair value through OCI				
Unquoted equity shares	–	–	2	2
Total	**–**	**28**	**4**	**32**
Financial liabilities at fair value through profit and loss:				
Derivatives designated as hedging instruments	–	(22)	–	(22)
Total	**–**	**(22)**	**–**	**(22)**
Balance as of June 30, 2019				
Financial assets at fair value through profit and loss:				
Derivatives designated as hedging instruments	–	13	–	13
Derivatives not designated as hedging instruments	–	–	2	2
Equity instruments at fair value through OCI:				
Unquoted equity shares	–	–	2	2
Total	**–**	**13**	**4**	**18**
Financial liabilities at fair value through profit and loss:				
Derivatives designated as hedging instruments		(14)		(14)
Total	**–**	**(14)**	**–**	**(14)**

18 Events after the balance sheet date

On July 25 the Company agreed to acquire a 51% stake in Zhejiang Klite Lighting Holdings Co., Ltd. This Zhejiang, China-based company is one of the leading providers of high-quality, cost-efficient LED lamps and luminaires, which generated around EUR 250 million in sales to third parties in 2018. This transaction will strategically strengthen Signify's position in the supply chain of LED lamps and luminaires thereby allowing a faster delivery of cost-efficient innovations to customers and to capture value from the growing private label segment. The transaction, which is subject to customary closing conditions, is expected to close in the second half of 2019.

Appendix B - Reconciliation of non-IFRS financial measures

Sales growth composition per business

In percentage

2019 vs 2018	Second quarter			
	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Lamps	(20.3)	1.8	-	(18.5)
LED	(1.8)	2.1	0.0	0.4
Professional	(5.6)	1.4	1.0	(3.2)
Home	19.0	1.3	-	20.4
Other	255.7	18.3	-	274.0
Total	**(6.1)**	**1.7**	**0.5**	**(3.9)**

In percentage

2019 vs 2018	January to June			
	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Lamps	(19.1)	1.5	-	(17.6)
LED	(1.0)	1.7	0.0	0.7
Professional	(3.7)	1.1	1.4	(1.2)
Home	21.8	1.1	-	22.9
Other	302.8	22.1	-	324.9
Total	**(4.7)**	**1.4**	**0.6**	**(2.7)**

Sales growth composition per market

In percentage

2019 vs 2018	Second quarter			
	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(6.3)	(0.1)	0.4	(6.1)
Americas	(8.1)	3.9	0.0	(4.2)
Rest of the World	(4.7)	1.7	0.7	(2.3)
Global businesses	(1.5)	1.1	2.4	2.0
Total	**(6.1)**	**1.7**	**0.5**	**(3.9)**

In percentage

2019 vs 2018	January to June			
	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(5.4)	(0.3)	0.2	(5.5)
Americas	(5.2)	3.8	0.0	(1.3)
Rest of the World	(4.0)	1.1	1.5	(1.4)
Global businesses	(1.3)	1.1	1.1	0.9
Total	**(4.7)**	**1.4**	**0.6**	**(2.7)**

Adjusted EBITA to Income from operations (or EBIT)

In millions of EUR

	Second quarter					
	Signify	Lamps	LED	Professional	Home	Other
2019						
Adjusted EBITA	133	56	53	55	(8)	(24)
Restructuring	(14)	(3)	(1)	(7)	(0)	(3)
Acquisition-related charges	(1)	-	(0)	(1)	-	-
Incidental items	(13)	(3)	(4)	(6)	(1)	(0)
EBITA	**104**	**50**	**49**	**42**	**(10)**	**(27)**
Amortization [1)]	(24)	(0)	(1)	(22)	(0)	(1)
Income from operations (or EBIT)	**80**	**50**	**48**	**20**	**(10)**	**(27)**
2018						
Adjusted EBITA	130	74	47	55	(25)	(21)
Restructuring	(35)	(3)	(4)	(17)	(4)	(8)
Acquisition-related charges	(0)	0	-	(0)	-	-
Incidental items [3)]	(17)	-	-	(8)	-	(9)
EBITA	**77**	**72**	**43**	**29**	**(29)**	**(38)**
Amortization [1)]	(23)	(0)	(1)	(21)	(0)	(0)
Income from operations (or EBIT)	**54**	**72**	**42**	**8**	**(29)**	**(39)**

1) Amortization and impairments of acquisition related intangible assets and goodwill.

In millions of EUR

	January to June					
	Signify	Lamps	LED	Professional	Home	Other
2019						
Adjusted EBITA	247	119	107	87	(15)	(51)
Restructuring	(34)	(5)	(3)	(15)	(0)	(9)
Acquisition-related charges	(1)	-	(0)	(1)	-	-
Incidental items	(15)	(3)	(4)	(6)	(1)	(2)
EBITA	**198**	**111**	**100**	**66**	**(17)**	**(62)**
Amortization [1]	(49)	(0)	(2)	(45)	(1)	(1)
Income from operations (or EBIT)	**149**	**111**	**98**	**21**	**(18)**	**(63)**
2018						
Adjusted EBITA	235	153	90	86	(46)	(47)
Restructuring	(74)	(19)	(5)	(20)	(5)	(25)
Acquisition-related charges	(0)	(0)	-	(0)	-	-
Incidental items [3]	(21)	-	-	(8)	-	(13)
EBITA	**140**	**134**	**85**	**58**	**(51)**	**(85)**
Amortization [1]	(46)	(0)	(2)	(42)	(1)	(1)
Income from operations (or EBIT)	**94**	**133**	**83**	**15**	**(52)**	**(86)**

1) Amortization and impairments of acquisition related intangible assets and goodwill.

Income from operations to Adjusted EBITA

In millions of EUR

	Second quarter				
	Reported	Restruc-turing	Acquisition related charges	Incidental items	Adjusted
2019					
Sales	1,477	-	-	-	1,477
Cost of sales	(926)	6	-	-	(920)
Gross margin	**551**	**6**	**-**	**-**	**557**
Selling, general and administrative expenses	(404)	7	1	14	(383)
Research and development expenses	(68)	1	-	-	(67)
Indirect costs	**(471)**	**8**	**1**	**14**	**(449)**
Impairment of goodwill	-	-	-	-	-
Other business income	1	-	-	(0)	0
Other business expenses	(0)	-	-	-	(0)
Income from operations	**80**	**14**	**1**	**13**	**108**
Amortization [1]	(24)	-	-	-	(24)
Income from operations excluding amortization (EBITA)	**104**	**14**	**1**	**13**	**133**
2018					
Sales	1,537	-	-	-	1,537
Cost of sales	(970)	16	(0)	-	(955)
Gross margin	**567**	**16**	**(0)**	**-**	**583**
Selling, general and administrative expenses	(428)	14	0	8	(405)
Research and development expenses	(78)	5	-	-	(73)
Indirect costs	**(506)**	**20**	**0**	**8**	**(478)**
Impairment of goodwill	-	-	-	-	-
Other business income	3	-	-	-	3
Other business expenses	(10)	-	-	9	(1)
Income from operations	**54**	**35**	**0**	**17**	**107**
Amortization [1]	(23)	-	-	-	(23)
Income from operations excluding amortization (EBITA)	**77**	**35**	**0**	**17**	**130**

1) Amortization and impairment of acquisition related intangible assets and goodwill.

In millions of EUR

	January to June				
	Reported	Restruc-turing	Acquisition related charges	Incidental items	Adjusted
2019					
Sales	2,955	–	–	–	2,955
Cost of sales	(1,852)	11	–	–	(1,841)
Gross margin	**1,103**	**11**	**–**	**–**	**1,114**
Selling, general and administrative expenses	(813)	19	1	15	(778)
Research and development expenses	(139)	4	–	–	(136)
Indirect costs	**(953)**	**23**	**1**	**15**	**(914)**
Impairment of goodwill	–	–	–	–	–
Other business income	3	–	–	(0)	3
Other business expenses	(4)	–	–	–	(4)
Income from operations	**149**	**34**	**1**	**15**	**199**
Amortization [1]	(49)	–	–	–	(49)
Income from operations excluding amortization (EBITA)	**198**	**34**	**1**	**15**	**247**
2018					
Sales	3,038	–	–	–	3,038
Cost of sales	(1,906)	31	0	0	(1,876)
Gross margin	**1,132**	**31**	**0**	**0**	**1,163**
Selling, general and administrative expenses [2]	(858)	24	0	12	(822)
Research and development expenses	(173)	20	–	–	(153)
Indirect costs	**(1,032)**	**44**	**0**	**12**	**(976)**
Impairment of goodwill	–	–	–	–	–
Other business income	5	–	–	(1)	4
Other business expenses	(12)	–	–	10	(2)
Income from operations	**94**	**74**	**0**	**21**	**189**
Amortization [1]	(46)	–	–	–	(46)
Income from operations excluding amortization (EBITA)	**140**	**74**	**0**	**21**	**235**

1) Amortization and impairment of acquisition related intangible assets and goodwill.

Composition of cash flows

In millions of EUR

	Second quarter		January to June	
	2018	2019	2018	2019
Cash flows from operating activities	(9)	147	6	212
Cash flows from investing activities	(36)	(45)	(45)	(50)
Cash flows before financing activities	**(45)**	**103**	**(38)**	**162**
Cash flows from operating activities	(9)	147	6	212
Net capital expenditures:	(22)	(27)	(43)	(37)
• Additions of intangible assets	(5)	(12)	(12)	(16)
• Capital expenditures on property, plant and equipment	(18)	(16)	(33)	(23)
• Proceeds from disposal of property, plant and equipment	1	1	1	2
Free cash flows	**(31)**	**121**	**(37)**	**175**

Working capital to total assets

In millions of EUR

	June 30, 2018	December 31, 2018	June 30, 2019
Working capital	694	536	503
Eliminate liabilities comprised in WoCa:			
• Accounts and notes payable	967	953	1,052
• Accrued liabilities	414	444	460
• Derivative financial liabilities	19	22	13
• Other current liabilities	300	288	311
Include assets not comprised in WoCa:			
• Non-current assets	3,317	3,211	3,413
• Income tax receivable	35	35	37
• Current financial assets	4	4	3
• Cash and cash equivalents	598	676	621
• Assets classified as held for sale	7	9	7
Total assets	**6,355**	**6,181**	**6,420**

Appendix C – Financial glossary

Acquisition-related charges	Costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses
Adjusted EBITA	EBITA excluding restructuring costs, acquisition-related charges and other incidental charges
Adjusted EBITA margin	Adjusted EBITA divided by sales to third parties (excluding intersegment)
Adjusted gross margin	Gross margin, excluding restructuring costs, acquisition-related charges and other incidental items attributable to cost of sales
Adjusted indirect costs	Indirect costs, excluding restructuring costs, acquisition-related charges and other incidental items attributable to indirect costs
Adjusted R&D expenses	Research and development expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to research and development expenses
Adjusted SG&A expenses	Selling, general and administrative expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to selling, general and administrative expenses
Comparable sales growth (CSG)	The period-on-period growth in sales excluding the effects of currency movements and changes in consolidation and other changes
EBIT	Income from operations
EBITA	Income from operations excluding amortization and impairment of acquisition related intangible assets and goodwill
Effects of changes in consolidation and other changes	In the event a business is acquired (or divested), the impact of the consolidation (or de-consolidation) on the Group's figures is included (or excluded) in the calculation of the comparable sales growth figures. Other changes include regulatory changes and changes originating from new accounting standards
Effects of currency movements	Calculated by translating the foreign currency financials of the previous period and the current period into euros at the same average exchange rates.
Employees	Employees of Signify at period end expressed on a full-time equivalent (FTE) basis
Free cash flow	Net cash provided by operating activities minus net capital expenditures. Free cash flow includes interest paid and income taxes paid
Gross margin	Sales minus cost of sales

Incidental charges	Any item with an income statement impact (loss or gain) that is deemed to be both significant and not part of normal business activity. Other incidental items may extend over several quarters within the same financial year
Indirect costs	The sum of selling, general and administrative expenses and R&D expenses
Net capital expenditures	Additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment
Net debt	Short-term debt, long-term debt minus cash and cash equivalents
R&D expenses	Research and development expenses
Restructuring costs	The estimated costs of initiated reorganizations, the most significant of which have been approved by the Group, and which generally involve the realignment of certain parts of the industrial and commercial organization
SG&A expenses	Selling, general and administrative expenses
Working capital	The sum of Inventories, Receivables, Other current assets, Derivative financial assets, minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, and Other current liabilities.