Signify

Press Release

July 27, 2018

Signify reports second quarter sales of EUR 1.5 billion and operational profitability of 8.4%; Increases share repurchase program to EUR 300 million

Second quarter 2018[1]

- Sales of EUR 1,537 million; a comparable decrease of 3.4%
- LED-based comparable sales growth of 4.7%, representing 70% of total sales (Q2 2017: 63%)
- Adj. currency comparable indirect costs down EUR 46 million, a reduction of 8%; or 150 basis points of sales
- Adj. EBITA of EUR 130 million (Q2 2017: EUR 159 million), impacted by currency effects of EUR -22 million
- Adj. EBITA margin of 8.4% (Q2 2017: 9.4%), including a currency impact of -80 basis points
- Net income of EUR 29 million (Q2 2017: EUR 73 million), reflecting higher restructuring costs, lower profitability and a real estate gain in Q2 2017
- Free cash flow of EUR -31 million (Q2 2017: EUR -44 million excluding real estate proceeds)
- Share repurchase program for 2018 increased from EUR 150 million to EUR 300 million

Half year 2018 highlights[1]

- Sales of EUR 3,038 million, a comparable decrease of 3.4%; LED-based comparable sales growth of 5.3%
- Strong reduction in currency comparable indirect costs of EUR 84 million, or 120 basis points of sales
- Adjusted EBITA margin of 7.7% (H1 2017: 8.4%), including a currency impact of -60 basis points
- Working capital improved by 70 basis points to 10.5% of sales
- Free cash flow of EUR -37 million, an improvement compared with EUR -62 million, excluding real estate proceeds in H1 2017

Eindhoven, the Netherlands – Signify (Euronext: LIGHT), the world leader in lighting, today announced the company's 2018 second quarter results. "In the second quarter, profitability improved in Lamps, LED and Professional while the performance in Home remained weak. We significantly reduced our cost base and working capital, thereby structurally improving our cash generation," said CEO Eric Rondolat. "However, given the slow start to the year and as we expect ongoing challenging market conditions, we have decided to revise our sales outlook for the year. We expect our sales growth performance to improve in the second half, but this will not be enough to deliver positive comparable sales growth for the full year. At the same time, we confirm our profitability and cash flow outlook for the year as our teams remain focused on relentlessly executing our strategy, driving down our cost base while investing in innovation and growth opportunities."

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

Outlook

Given the slow start to the year in Home, more challenging market and competitive dynamics in some geographies, as well as global scarcity in certain electronic components, Signify has decided to revise its sales outlook for 2018. The company expects its comparable sales growth in the second half to improve compared with the first half, however, the improvement is not expected to be sufficient to deliver positive comparable sales growth for the full year.

Taking into account the anticipated cost savings in the second half of 2018, the company maintains its earlier outlook to improve the Adjusted EBITA margin from 9.6% in 2017 to 10.0-10.5% in 2018, albeit at the lower end of the range. The company also continues to expect to generate a solid free cash flow in 2018, which will be somewhat lower than the level in 2017 due to higher restructuring payments.

Capital allocation

Increase in share repurchase program for 2018 from EUR 150 million to EUR 300 million
The company has decided to increase the amount allocated for share repurchases from EUR 150 million to EUR 300 million. In the first half of 2018, the company repurchased shares for an amount of EUR 71 million by participating in share disposals by its main shareholder. As a result, Signify intends to repurchase additional shares for up to EUR 229 million in the remainder of 2018, either in the open market or by participating in share disposals by its main shareholder.

Second contribution of USD 50 million to US pension fund planned for Q3 2018
Signify has an active pension de-risking strategy in which it actively looks for opportunities to reduce the risks associated with the defined-benefit plans. As part of this strategy, it announced in Q2 2017 that it intended to contribute approximately USD 150 million to its US pension fund over the period 2017-2019 to further reduce liabilities and to lower interest expenses going forward. Following the first contribution of USD 50 million in Q3 2017, Signify intends to make the second contribution of USD 50 million in Q3 2018.

Signify

Financial review

Changes to financial reporting

Since the first quarter of 2018, Signify reports and discusses its financial performance based on the recently announced portfolio changes to further align the organizational structure with the strategy. In March 2018, the company provided an update to show the effect of changes to the business portfolio as well as changes to the allocation methods of centrally-managed costs and to the threshold for other incidental items as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA.

Second quarter				Six months		
2017	2018	change	*in € million, except percentages*	2017	2018	change
		-3.4%	**Comparable sales growth**			**-3.4%**
		-5.5%	*Effects of currency movements*			*-6.3%*
		-0.6%	*Consolidation and other changes*			*-0.6%*
1,699	**1,537**	-9.5%	**Sales**	**3,389**	**3,038**	-10.4%
678	583	-14.1%	Adjusted gross margin	1,349	1,163	-13.8%
39.9%	**37.9%**		**Adj. gross margin (as % of sales)**	**39.8%**	**38.3%**	
-463	-405		Adj. SG&A expenses	-946	-822	
-85	-73		Adj. R&D expenses	-173	-153	
-549	-478	12.9%	Adj. indirect costs	-1,119	-976	12.8%
32.3%	**31.1%**		**Adj. indirect costs (as % of sales)**	**33.0%**	**32.1%**	
159	130	-18.4%	Adjusted EBITA	286	235	-17.7%
9.4%	**8.4%**		**Adjusted EBITA margin (%)**	**8.4%**	**7.7%**	
-20	-53		Adjusted items	-25	-96	
139	77	-44.4%	EBITA	262	140	-46.6%
111	**54**	**-51.4%**	**Income from operations (EBIT)**	**206**	**94**	**-54.5%**
-11	-13		Net financial income/expense	-22	-23	
-26	-12		Income tax expense	-50	-22	
73	**29**	**-60.0%**	**Net income**	**134**	**49**	**-63.2%**
-27	-31		Free cash flow	-26	-37	
0.51	0.23		Basic EPS (€)	0.94	0.38	
34,545	30,097		Employees (FTE)	34,545	30,097	

Second quarter

Performance in the second quarter reflects the weak performance in Home, more challenging market and competitive dynamics in some geographies as well as global scarcity in certain electronic components. Sales amounted to EUR 1,537 million. Adjusted for -5.5% currency effects and -0.6% consolidation impact, comparable sales decreased by 3.4%. Comparable LED-based sales grew by 4.7% and now represent 70% of total sales compared with 63% in Q2 2017. The adjusted gross margin decreased by 200 basis points to 37.9%, mainly due to a high comparison base in Lamps and weak performance in Home. Continued procurement savings and increased productivity were offset by price erosion and currency effects.

Adjusted indirect costs decreased by EUR 71 million, or 120 basis points as a percentage of sales, as a result of rigorous implementation of cost reduction initiatives. Adjusted EBITA amounted to EUR 130 million, compared with EUR 159 million in the same period last year, and was negatively impacted by EUR 22 million of currency effects. The Adjusted EBITA margin was 8.4%, compared with 9.4% last year, including currency effects of -80 basis points. Restructuring costs were EUR 35 million and incidental items were EUR 17 million. Net income was EUR 29 million compared with EUR 73 million last year, due to lower Adjusted EBITA (EUR 29 million) and a real estate gain in Q2 2017 (EUR 15 million). Free cash flow amounted to EUR -31 million compared with EUR -44 million, excluding real estate proceeds of EUR 17 million in Q2 2017.

First half year

Adjusted for -6.3% currency effects and -0.6% consolidation impact, comparable sales decreased by 3.4%. Comparable LED-based sales grew by 5.3%. Adjusted indirect costs decreased by EUR 143 million, or 90 basis points as a percentage of sales. The Adjusted EBITA margin was 7.7% compared with 8.4% last year, including currency effects of -60 basis points. Net income was EUR 49 million compared with EUR 134 million last year, mainly due to lower Adjusted EBITA (EUR 51 million), higher restructuring costs (EUR 33 million) and real estate gains in H1 2017 (EUR 30 million), partly offset by lower tax expenses (EUR 28 million). Free cash flow improved to EUR -37 million, compared with EUR -62 million, excluding real estate proceeds of EUR 36 million in H1 2017.

Lamps

Second quarter				Six months		
2017	2018	change	*in € million, unless otherwise indicated*	2017	2018	change
		-16.4%	Comparable sales growth (%)			-17.0%
449	351	-21.8%	Sales	939	722	-23.1%
93	74	-19.9%	Adjusted EBITA	193	153	-20.7%
20.7%	21.2%		Adjusted EBITA margin (%)	20.5%	21.2%	
96	72		EBITA	203	134	
95	72		Income from operations (EBIT)	203	133	

Second quarter

Sales amounted to EUR 351 million, a comparable decrease of 16.4% which is estimated to be lower than the market decline, resulting in continued market share gains. The Adjusted EBITA margin improved by 50 basis points to 21.2%. This was mainly driven by lower indirect costs, ongoing procurement savings and increased productivity, more than offsetting currency effects. Adjusted EBITA amounted to EUR 74 million.

LED

Second quarter				Six months		
2017	2018	change	*in € million, unless otherwise indicated*	2017	2018	change
		0.0%	Comparable sales growth (%)			1.8%
477	443	-7.2%	Sales	945	887	-6.2%
50	47	-6.7%	Adjusted EBITA	90	90	-0.7%
10.5%	10.6%		Adjusted EBITA margin (%)	9.5%	10.1%	
48	43		EBITA	91	85	
47	42		Income from operations (EBIT)	88	83	

Second quarter
Sales amounted to EUR 443 million. On a comparable basis, growth was flat year on year on the back of a high comparison base and more challenging market conditions. Volumes in LED lamps continue to gradually converge to market growth, while price erosion is slowing down. Following several quarters of lower demand from OEMs, LED electronics' comparable sales trend improved in the quarter. Adjusted EBITA amounted to EUR 47 million, improving the Adjusted EBITA margin by 10 basis points to 10.6%. The improvement resulted from procurement savings and lower indirect costs, partly offset by price erosion and currency effects.

Professional

Second quarter				Six months		
2017	2018	change	*in € million, unless otherwise indicated*	2017	2018	change
		3.6%	Comparable sales growth (%)			3.4%
669	652	-2.5%	Sales	1,290	1,245	-3.5%
52	55	6.2%	Adjusted EBITA	64	86	33.3%
7.7%	8.4%		Adjusted EBITA margin (%)	5.0%	6.9%	
28	29		EBITA	39	58	
3	8		Income from operations (EBIT)	-13	15	

Second quarter
Professional delivered a solid performance, taking into account more challenging market conditions in some geographies and scarcity in certain electronic components globally. Sales increased by 3.6% to EUR 652 million on a comparable basis. While markets like Canada and the UK experienced difficult market conditions, most other countries in Europe and the Rest of the World delivered a solid performance. The comparable sales trend in the US improved compared with preceding quarters. Saudi Arabia showed signs of improvement, limiting the impact on comparable sales growth to -60 basis points. Adjusted EBITA amounted to EUR 55 million, improving the Adjusted EBITA margin by 70 basis points to 8.4%, mainly driven by lower indirect costs, partly offset by a more challenging pricing environment.

Home

Second quarter				Six months		
2017	2018	change	*in € million, unless otherwise indicated*	2017	2018	change
		-5.9%	Comparable sales growth (%)			-6.2%
100	89	-11.1%	Sales	206	181	-12.2%
-6	-25	-310.5%	Adjusted EBITA	-5	-46	-741.2%
-6.0%	-27.9%		Adjusted EBITA margin (%)	-2.7%	-25.5%	
7	-29		EBITA	6	-51	
7	-29		Income from operations (EBIT)	5	-52	

Second quarter
Sales amounted to EUR 89 million, a decrease of 5.9% on a comparable basis due to the protracted effects of high inventory levels in US retail at the end of last year, which have now returned to more normalized levels. As a result, sales in Home Systems improved in the quarter while sell-out continued to show substantial growth. Adjusted EBITA amounted to EUR -25 million. The Adjusted EBITA margin of -27.9% was mainly the result of lower fixed cost absorption and investments in growth since Q2 2017.

Other

Second quarter
Adjusted EBITA amounted to EUR -21 million (Q2 2017: EUR -30 million). It 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. EBITA amounted to EUR -38 million (Q2 2017: EUR -40 million), including restructuring costs of EUR 8 million (Q2 2017: EUR 5 million). Other incidental items not part of the Adjusted EBITA included EUR 9 million of costs mainly related to the company name change (Q2 2017: EUR 5 million of separation costs).

Sales by market

Second quarter					Six months			
2017	2018	Change	CSG*	*in € million, except percentages*	2017	2018	change	CSG*
537	526	-2.1%	-1.1%	Europe**	1,101	1,082	-1.7%	-0.9%
539	443	-17.7%	-8.4%	Americas	1,073	860	-19.9%	-9.2%
515	468	-9.1%	-0.4%	Rest of the World	1,004	901	-10.3%	-0.5%
109	101	-7.6%	-4.4%	Global businesses	211	196	-7.5%	-2.6%
1,699	**1,537**	**-9.5%**	**-3.4%**	**Total**	**3,389**	**3,038**	**-10.4%**	**-3.4%**

* *CSG: Comparable sales growth*

***Russia & Central Asia are now included in Market Group Europe (were previously part of Rest of the World)*

Second quarter
Comparable sales in Europe decreased by 1.1%. A solid performance in Germany, Austria, Switzerland and Eastern Europe was offset by a weak performance in the UK and Spain. In the Americas, comparable sales decreased by 8.4%, mainly due to the ongoing decline in Lamps and a weak performance in Home in the US. Comparable sales for the Rest of the World decreased by 0.4%, with a solid performance in India offset by continued challenging market conditions in the Middle East & Turkey.

Working capital

in € million, unless otherwise indicated	30 Jun '17	31 Mar '18	30 Jun '18
Inventories	1,082	957	1,009
Receivables	1,410	1,235	1,243
Accounts and notes payable	-1,035	-949	-967
Accrued liabilities	-434	-413	-414
Other*	-234	-218	-178
Working capital	**789**	**612**	**694**
As % of LTM** sales	11.2%	9.0%	10.5%

* *Working capital definition has been updated and no longer includes income tax receivable and income tax payable*
***LTM: Last Twelve Months*

Second quarter
Working capital improved year-on-year by EUR 95 million to EUR 694 million, mainly driven by lower receivables and inventory levels. As a percentage of sales, working capital improved by 70 basis points to 10.5% of sales compared with the end of June 2017.

Cash flow analysis

Second quarter 2017	Second quarter 2018	in € million	Six months 2017	Six months 2018
111	54	Income from operations (EBIT)	206	94
65	58	Depreciation and amortization	130	116
49	53	Additions to (releases of) provisions	80	107
-58	-62	Utilizations of provisions	-124	-121
-136	-84	Change in working capital	-185	-125
-4	-6	Interest paid	-7	-11
-27	-22	Income taxes paid	-55	-56
-10	-22	Net capex	-12	-43
-15	-1	Other	-58	2
-27	**-31**	**Free cash flow**	**-26**	**-37**

Second quarter

Free cash flow amounted to EUR -31 million, an improvement compared with EUR -44 million, excluding real estate proceeds of EUR 17 million in Q2 2017. Free cash flow in Q2 2018 included a restructuring pay-out of EUR 33 million (Q2 2017: EUR 22 million) and an outflow of EUR 10 million related to the company name change (Q2 2017: EUR 10 million related to the separation).

Net debt

in € million	30 Jun '17	31 Mar '18	30 Jun '18
Short-term debt	123	111	101
Long-term debt	1,186	1,157	1,185
Gross debt	1,309	1,267	1,286
Cash and cash equivalents	612	833	598
Net debt	**697**	**435**	**688**
Total equity	**2,396**	**2,202**	**2,133**

Net debt amounted to EUR 688 million, an increase of EUR 253 million compared with the end of March 2018. Total equity reduced to EUR 2,133 million at the end of Q2 2018 (Q1 2018: EUR 2,202 million), primarily due to dividend distribution and share repurchases, partly offset by net income and currency effects.

Other information

Appendix A – Condensed Consolidated Financial Statements for the six-month period ended June 30, 2018
Appendix B – Reconciliation of non-IFRS financial measures
Appendix C – Financial Glossary

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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 2017 sales of EUR 7.0 billion, we currently employ approximately 30,000 employees and have a presence in over 70 countries. We unlock the extraordinary potential of light for brighter lives and a better world. News from Signify is located at the Newsroom, Twitter and LinkedIn. 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, impact of the Group's operation as a separate publicly listed company, pension liabilities and costs, establishment of corporate and brand identity, adverse tax consequences from the separation from Royal Philips and exposure to international tax laws. Please see "Risk Factors and Risk Management" in Chapter 12 of the Annual Report 2017 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 2017.

Looking ahead to the second half of 2018, the Group is primarily concerned about the challenging economic conditions, currency headwinds and political uncertainties in the global and domestic markets in which it operates. Additional risks currently not known to the Group or that the Group has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of the Group or could cause the forward-looking events discussed in this document not to occur. The Group undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

Market and Industry Information

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

Non-IFRS Financial Measures

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, adjusted EBITA, 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 2017.

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 2017 and semi-annual report 2018.

Changes to financial reporting following organizational changes to further align the organizational structure with the strategy

As the market trend of both professionals and consumers switching from buying lamps and luminaires to integrated LED luminaires is accelerating, the company has decided to modify the current portfolios of its business groups. As of January 1, 2018, Signify has implemented the following changes to the following portfolios:

- Consumer and professional trade downlights, the recessed spots portfolio and the LED Light strips moved from Home and Professional to LED;
- Consumer LED functional ceiling products moved from Home to LED;
- LED battens moved from Home to Professional; and
- Consumer and professional trade LED panels moved from Home and LED to Professional.
- Next to this, the financial performance of the Ventures activities is reported in Other instead of in Professional and in Home, as these activities are managed outside of the aforementioned business groups. In addition, the switches business within Lamps has been moved to LED.

Therefore, with effect from the first quarter of 2018, Signify reports and discusses its financial performance based on the above portfolio changes. In March 2018, the company provided an update to show the effect of changes to the business portfolio as well as changes to the allocation methods of centrally-managed costs and expenses and threshold for other incidental items as adjusting items when presenting certain non-IFRS measures such as Adjusted EBITA.

In addition, the cash flow presentation has been amended to better correspond to the balance sheet and to further improve transparency on cash flow movements. As of the first quarter of 2018, Signify provides cash flow statements per quarter.

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, 2018

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, 2018 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 2018 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, 2017.

Responsibility statement

The Board of Management of the Company hereby declares that, to the best of their knowledge, the semi-annual condensed consolidated interim financial statements for the six-month period ended June 30, 2018, which has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the semi-annual management report for the six-month period ended June 30, 2018, 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 27, 2018

Board of Management

Eric Rondolat
Stéphane Rougeot
René van Schooten

Management report

Business performance [1)]

First half 2018

Sales amounted to EUR 3,038 million, a decrease of 10.4% on a nominal basis. Adjusted for a -6.3% currency effect and -0.6% consolidation and other impact, comparable sales were 3.4% lower than in the first half of 2017. Comparable LED-based sales grew by 5.3% and accounted for 69% of total sales. The adjusted indirect cost base reduced by EUR 143 million, improving by 90 basis points to 32.1% of sales. The Adjusted EBITA margin was 7.7% compared with 8.4% in the same period last year, as currency effects impacted performance by -60 basis points. Net income was EUR 49 million compared with EUR 134 million last year, mainly due to lower Adjusted EBITA (EUR 51 million), higher restructuring costs (EUR 33 million) and real estate gains in the first half of 2017 (EUR 30 million). The effective tax rate for the first half of 2018 was 30.7% compared to 26.9% in 2017. The increase in the effective tax rate is primarily due to lower non-taxable income in the first six months of 2018 compared to the prior year. Compared to the end of June 2017, working capital as percentage of sales improved by 70 basis points to 10.5% of sales, mainly driven by lower receivables. Free cash flow amounted to EUR -37 million, compared with EUR -62 million, excluding real estate proceeds of EUR 36 million in the first half of 2017.

Lamps

Sales amounted to EUR 722 million, a decline of 23.1% on a nominal basis and 17.0% 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 133 million due to the decline in sales and currency effects, partly offset by pro-active rationalization of the manufacturing footprint, lower indirect costs, ongoing procurement savings and increased productivity. EBITA amounted to EUR 134 million, compared to EUR 203 million in the first half of 2017. This includes EUR 19 million of restructuring costs. The Adjusted EBITA margin improved by 70 basis points to 21.2%. Adjusted EBITA amounted to EUR 153 million.

LED

Sales were EUR 887 million, a decline of 6.2% on a nominal basis and positive growth of 1.8% on a comparable basis, on the back of a high comparison base. Growth in LED lamps remained robust, with volume gradually converging to market growth while price erosion is slowing down. Following several quarters of lower demand from OEMs, LED electronics' comparable sales trend started to improve in the course of the first half-year. Income from operations amounted to EUR 83 million. EBITA of EUR 85 million included EUR 5 million of restructuring costs. The Adjusted EBITA margin improved by 60 basis points to 10.1% as a result of procurement savings and lower indirect costs, partly offset by price erosion and currency effects.

Professional

Sales were EUR 1,245 million, reflecting a nominal sales decline of 3.5% and comparable sales growth of 3.4%. Europe and the Rest of the World delivered a solid performance. The Americas was impacted by difficult market conditions. The comparable sales trend in the US improved somewhat in the second quarter compared to preceding quarters. Saudi Arabia impacted comparable sales growth by -140 basis points. Income from operations was EUR 15 million compared to EUR -13 million in the same period last year. EBITA amounted to EUR 58 million. It included restructuring costs of EUR 20 million, mainly related to simplification of business structures. Adjusted EBITA amounted to EUR 86 million. The Adjusted EBITA margin improved by 190 basis points to 6.9%, mainly driven by lower indirect

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".

costs, operational leverage and manufacturing footprint rationalization, partly offset by a more challenging pricing environment.

Home

Sales amounted to EUR 181 million, with a nominal sales decline of 12.2% and a decline of 6.2% on a comparable basis. This was caused by lower than expected sales at our largest US trade partners in the fourth quarter of 2017, which resulted in lower sales in the first half of 2018 to allow for inventory reductions at our US trade partners. Income from operations was EUR -52 million and was impacted by lower fixed cost absorption and higher investments in growth compared to the first half of 2017. EBITA amounted to EUR -51 million and included restructuring costs of EUR 5 million. Adjusted EBITA was EUR -46 million.

Other

Reported EBITA amounted to EUR -85 million. This 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 -47 million, compared with EUR -56 million in the same period last year. Restructuring costs were EUR 25 million. Other incidentals, which are not part of Adjusted EBITA, included EUR 13 million of costs mainly related to the company name change and the separation.

1. Condensed consolidated interim financial statements

1.1 Condensed consolidated statements of income

Signify
Condensed consolidated statements of income in mEUR unless otherwise stated

		Q2		January to June	
		2017	**2018**	**2017**	**2018**
	Sales	1,699	1,537	3,389	3,038
	Cost of sales	(1,024)	(970)	(2,047)	(1,906)
	Gross margin	**676**	**567**	**1,343**	**1,132**
	Selling, general and administrative expenses	(488)	(428)	(985)	(858)
	Research and development expenses	(93)	(78)	(182)	(173)
	Impairment of goodwill	-	-	-	-
[5]	Other business income	18	3	34	5
[5]	Other business expenses	(1)	(10)	(4)	(12)
	Income from operations	**111**	**54**	**206**	**94**
	Financial income	1	3	4	7
	Financial expenses	(12)	(17)	(26)	(30)
	Results relating to investments in associates	(1)	0	0	0
	Income before taxes	**99**	**41**	**184**	**71**
[6]	Income tax expense	(26)	(12)	(50)	(22)
	Net income	**73**	**29**	**134**	**49**
	Attribution of net income for the period:				
	Net income (loss) attributable to shareholders of Signify N.V.	74	31	138	52
	Net income (loss) attributable to non-controlling interests	(1)	(2)	(4)	(3)
	Earnings per common share attributable to shareholders				
	Weighted average number of ordinary shares outstanding used for calculation (in thousands):				
	• Basic	143,949	136,353	146,068	137,386
	• Diluted	144,450	136,809	146,395	137,856
	Net income attributable to shareholders per ordinary share in EUR:				
	• Basic	0.51	0.23	0.94	0.38
	• Diluted	0.51	0.23	0.94	0.38

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

1.2 Condensed consolidated statements of comprehensive income

Signify
Condensed consolidated statements of comprehensive income in mEUR

	Q2		January to June	
	2017	**2018**	**2017**	**2018**
Net income for the period	**73**	**29**	**134**	**49**
Pensions and other post-employment plans:				
• Remeasurements	(1)	(3)	-	(6)
• Income tax effect on remeasurements	-	-	-	-
Total of items that will not be reclassified to profit or loss	**(1)**	**(3)**	**-**	**(6)**
Currency translation differences:				
• Net current period change, before tax	(139)	115	(176)	51
• Income tax effect	-	-	-	-
Cash flow hedges:				
• Net current period change, before tax	(9)	(11)	(16)	(1)
• Income tax effect	3	1	3	(1)
Total of items that are or may be reclassified to profit or loss	**(145)**	**104**	**(189)**	**48**
Other comprehensive income (loss)	**(146)**	**102**	**(189)**	**43**
Total comprehensive income (loss)	**(73)**	**131**	**(55)**	**92**
Total comprehensive income (loss) attributable to:				
• Shareholders of Signify N.V.	(66)	128	(43)	93
• Non-controlling interests	(7)	3	(12)	(0)

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

1.3 Condensed consolidated balance sheets

Signify
Condensed consolidated balance sheets in mEUR

		December 31, 2017		June 30, 2018	
	Non-current assets				
[7]	Property, plant and equipment				
	• At cost	2,333		2,313	
	• Less accumulated depreciation	(1,841)		(1,847)	
			492		466
[8]	Goodwill		1,694		1,745
[9]	Intangible assets, excluding goodwill				
	• At cost	2,018		2,047	
	• Less accumulated amortization	(1,455)		(1,517)	
			562		530
	Non-current receivables		49		49
	Investments in associates		21		18
	Other non-current financial assets		12		14
	Deferred tax assets		440		462
	Other non-current assets		35		33
	Total non-current assets		**3,306**		**3,317**
	Current assets				
[10]	Inventories		924		1,009
	Current financial assets		0		4
	Other current assets		77		117
[16]	Derivative financial assets		16		24
	Income tax receivable		39		35
	Receivables:				
	• Accounts receivable	1,311		1,186	
	• Other current receivables	62		57	
	Receivables		1,373		1,243
	Assets classified as held for sale		1		7
	Cash and cash equivalents		942		598
	Total current assets		**3,372**		**3,038**
	Total assets		**6,678**		**6,355**

		December 31, 2017		June 30, 2018	
	Equity				
[11]	Share capital	1		1	
	Share premium	2,163		2,009	
	Retained earnings	287		152	
	Currency translation differences	(87)		(38)	
	Cash flow hedges	1		(2)	
	Treasury shares	(124)		(66)	
			2,242		2,057
	Non-controlling interests		79		76
	Total equity		**2,321**		**2,133**
	Non-current liabilities				
[12]	Long-term debt		1,170		1,185
[13]	Long-term provisions		777		783
	Deferred tax liabilities		27		22
	Other non-current liabilities		167		172
	Total non-current liabilities		**2,140**		**2,162**
	Current liabilities				
[12]	Short-term debt		140		101
[16]	Derivative financial liabilities		8		19
	Income tax payable		79		65
	Account and notes payable		1,001		967
	Accrued liabilities		475		414
[13]	Short-term provisions		204		195
	Liabilities directly associated with assets classified held for sale		0		0
	Other current liabilities		309		300
	Total current liabilities		**2,216**		**2,060**
	Total liabilities and total equity		**6,678**		**6,355**

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

1.4 Condensed consolidated statements of cash flows

Signify

Condensed consolidated statements of cash flows in mEUR

	Q2		January to June	
	2017	**2018**	**2017**	**2018**
Cash flows from operating activities				
Net income (loss)	73	29	134	49
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	119	135	221	267
• Depreciation, amortization and impairment of non-financial assets	65	58	130	116
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	1	0	(1)	1
• Net gain on sale of assets	(17)	(1)	(32)	(2)
• Interest income	(1)	(3)	(3)	(6)
• Interest expense on debt, borrowings and other liabilities	5	7	10	15
• Income tax expense	26	12	50	22
• Additions to (releases of) provisions	49	53	80	107
• Other items	(9)	8	(14)	13
Decrease (increase) in working capital:	(136)	(84)	(185)	(125)
• Decrease (increase) in receivables	(21)	12	105	111
• Decrease (increase) in inventories	(145)	(31)	(246)	(86)
• Increase (decrease) in accounts payable	43	(11)	60	(47)
• Increase (decrease) in other current assets, accrued and other current liabilities	(13)	(55)	(104)	(103)
Increase (decrease) in non-current receivables, other assets and other liabilities	18	0	4	3
Utilizations of provisions	(58)	(62)	(124)	(121)
Interest paid	(4)	(6)	(7)	(11)
Income taxes paid	(27)	(22)	(55)	(56)
Net cash provided by (used for) operating activities	**(17)**	**(9)**	**(14)**	**6**
Cash flows from investing activities				
Net capital expenditures:	(10)	(22)	(12)	(43)
• Additions of intangible assets	(5)	(5)	(11)	(12)
• Capital expenditures on property, plant and equipment	(22)	(18)	(37)	(33)
• Proceeds from disposal of property, plant and equipment	18	1	36	1
Net proceeds from (cash used for) derivatives and current financial assets	(2)	(19)	(0)	(3)
Proceeds from other non-current financial assets	1	0	0	1
Purchases of other non-current financial assets	(3)	(1)	(3)	(4)
Purchases of businesses, net of cash acquired	0	5	(1)	5
Proceeds from sale of interests in businesses, net of cash disposed of	(0)	0	(1)	(0)
Net cash provided by (used for) investing activities	**(15)**	**(36)**	**(17)**	**(45)**
Cash flows from financing activities				
Funding by (distribution to) Royal Philips	15	(0)	3	(0)
Dividend paid	(157)	(171)	(157)	(171)
[12] Proceeds from issuance (payments) of debt	(18)	(14)	(26)	(31)
Purchase of treasury shares	(121)	(33)	(203)	(104)
Net cash provided by (used for) financing activities	**(282)**	**(218)**	**(383)**	**(306)**
Net cash provided by (used for) operations	**(313)**	**(264)**	**(414)**	**(344)**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts	(9)	26	(14)	7
Cash and cash equivalents and bank overdrafts at the beginning of the period 1)	935	825	1,040	925
Cash and cash equivalents and bank overdrafts at the end of the period 2)	**612**	**588**	**612**	**588**

1) For Q2 2018 and 2017, this included EUR 8 million and EUR nil million of bank overdrafts, respectively. For the first half 2018 and 2017, this included bank overdrafts of EUR 17 million and EUR nil million, respectively.

2) Included bank overdrafts of EUR 10 million and EUR nil million as of June 30, 2018 and 2017, respectively.

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

1.5 Condensed consolidated statements of changes in equity

Signify

Condensed consolidated statements of changes in equity in mEUR

	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, 2017	**2**	**2,369**	**139**	**190**	**4**	**-**	**2,704**	**104**	**2,808**
Net Income	-	-	138	-	-	-	138	(4)	134
Other comprehensive income (loss)	-	-	-	(168)	(13)	-	(181)	(8)	(189)
Total comprehensive income (loss)	**-**	**-**	**138**	**(168)**	**(13)**	**-**	**(43)**	**(12)**	**(55)**
Movement in non-controlling interests	-	-	-	-	-	-	-	-	-
Dividend distributed	-	(11)	(146)	-	-	-	(157)	-	(157)
Purchase of treasury shares	-	-	-	-	-	(205)	(205)	-	(205)
Cancellation of treasury shares	-	(82)	-	-	-	82	-	-	-
Share-based compensation plans	-	4	-	-	-	-	4	-	4
Funding by (distribution to) Royal Philips	-	1	-	-	-	-	1	-	1
Balance as of June 30, 2017	**2**	**2,281**	**131**	**22**	**(9)**	**(123)**	**2,304**	**92**	**2,396**
Balance as of December 31, 2017	**1**	**2,163**	**287**	**(87)**	**1**	**(124)**	**2,242**	**79**	**2,321**
Adoption of IFRS 9 (net of tax)	-	-	(11)	-	-	-	(11)	(3)	(14)
Restated total 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	-	(160)	-	-	-	160	-	-	-
Re-issuance of treasury shares	-	(1)	-	-	-	1	-	-	-
Share-based compensation plans	-	9	-	-	-	-	9	-	9
Funding by (distribution to) Royal Philips	-	(1)	-	-	-	-	(1)	-	(1)
Balance as of June 30, 2018	**1**	**2,009**	**152**	**(38)**	**(2)**	**(66)**	**2,057**	**76**	**2,133**

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

2. Notes to the condensed consolidated interim financial statements for the six-month period ended June 30, 2018

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

2.1 Introduction

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 term Royal Philips is used for Koninklijke Philips N.V. 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 45, 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. 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, 2017.

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, 2017. A number of other new standards and interpretations are effective from January 1, 2018, including Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) and IFRIC 22 Foreign Currency Transactions and Advance Consideration. These other new standards and interpretations are not considered significant for Signify's condensed consolidated interim financial statements.

IFRS 9 Financial instruments

Transition and impact assessment

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and

Measurement for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which was applied prospectively, Signify applied the new standard retrospectively on January 1, 2018 with the practical expedients permitted under the standard. Therefore, comparatives for December 31, 2017 were not restated. Signify concluded that timing of recognition of the expected credit losses for assets in scope was accelerated compared to the old requirements of IAS 39. The new impairment calculation methodology for trade accounts receivable utilizes the historical overdue and collection data as well as the forward-looking country specific credit default estimations. As these accounts receivable do not contain a significant financing component, Signify applied the simplified approach whereby the lifetime expected credit loss on the receivables is recognized based on a matrix model calculated per country.

Signify made the following adjustment to the opening balance as at January 1, 2018. The adjustment was a result of recording impairment losses based on the expected credit loss model.

Signify
Adjustments IFRS 9 in mEUR

	Deferred tax assets	Accounts receivable, net	Equity
Balance as of December 31, 2017	**440**	**1,311**	**2,321**
Adjustment (Increase / (decrease))	2	(16)	(14)
Balance as at January 1, 2018 after the adoption of IFRS 9	**442**	**1,295**	**2,307**

Apart from the impact presented above, IFRS 9, which includes requirements for recognition and measurement, classification, impairment, derecognition of financial instruments and general hedge accounting, does not have a material impact for Signify's condensed consolidated interim financial statements.

Further details on accounting policies are disclosed in note 16, Financial assets and liabilities.

IFRS 15 Revenue from contracts with customers

Transition and impact assessment

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Signify has adopted IFRS 15 using the cumulative effect method. Accordingly, the information presented for 2017 has not been restated. Under this method, the cumulative effect of initially applying this standard is accounted for as an adjustment to the opening balance of equity at the date of initial application (i.e. January 1, 2018). The impact of initial application is not material and therefore no opening balance adjustment was recorded. Signify applied the new standard only to contracts that were not considered completed contracts at the date of initial application.

There was no material impact on the condensed consolidated interim financial statements for the six-month period ended June 30, 2018 from implementing IFRS 15. In other words, had Signify not implemented IFRS 15 as of January 1, 2018, the condensed consolidated interim financial statements would not have been materially different.

Accounting policy

Revenue from the sale of goods is recognized at the point in time that the customer obtains control of the goods. For standard sale of products, control generally passes to the customer at the time the product is delivered and accepted, depending on the delivery conditions. Example 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.

Revenue is recognized at the amount to which Signify expects to be entitled. The transaction price excludes amounts collected on behalf of third parties, such as sales taxes, and is adjusted for any significant financing component. The transaction price may be variable due to discounts, rebates or similar arrangements. Revenue is only recognized for the part of the consideration for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Judgment is required in determining the probability and level of discounts that will be granted. The estimate is updated throughout the term of the contract. For products for which a right to return exists during a defined period, revenue is recognized by taking into account the historical pattern of actual returns. Return policies are typically based on customary return arrangements in local markets. In case of a right of return, a refund liability is recorded, similar as was done under previous guidance. In addition, under IFRS 15, a return asset is recognized, representing the right to recover the goods from the customer. The return asset is an adjustment to cost of goods sold of the specific transaction and is initially measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. Although this represents a change from previous guidance, due to limited right of returns granted to date, the impact on Signify's condensed consolidated interim financial statements for the six-month period ended June 30, 2018, is not material.

Signify applies the practical expedient not to adjust the transaction price for the effects of a significant financing component if, at contract inception, it is expected that the period between customer payment and the transfer of goods or services is one year or less.

Signify offers a range of connected lighting products, for which functionality is partly cloud-enabled. When applying IFRS 15, Signify regards the cloud-enabled services as a separate performance obligation. The transaction price is allocated to the different performance obligation based on the relative stand-alone selling prices. Revenue for the cloud-enabled services is recognized over time when the performance obligation is satisfied. This constitutes a change from previous guidance, whereby the full consideration was recognized as revenue upon the initial sale. The impact of this change on the condensed consolidated interim financial statements for the six-month period ended June 30, 2018, is however not material.

Shipping and handling expenses related to sales to third parties are generally 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. Shipping and handling billed to customers is recognized as revenue.

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 Signify with respect to the products. For certain products, customers have the option to purchase an extension of the warranty and/or life-cycle-services. Extended warranty and lifecycle services are generally identified as a separate performance obligation, and the allocated transaction price is recognized ratably over time during the extended warranty- or service period.

Transactions that have multiple promised goods and services mainly occur in parts of business group Professional. For these transactions, Signify accounts for individual goods and services, including any goods or services provided for free, separately in case they are distinct. The total consideration of the contract is allocated to all distinct performance obligations in the contract based on their stand-alone selling prices. Stand-alone selling prices are determined based on other stand-alone sales transactions that are directly observable, when possible. However, observable prices are not available for all performance obligations. If no direct observable prices are available, the stand-alone selling price is normally based on the expected cost plus a margin approach.

When a single contract contains multiple deliverables, for example supply of goods and services, these multiple deliverables may be combined in one or more performance obligations. Performance obligations may be satisfied over time, typically because Signify is creating or enhancing an asset that the customer controls. In limited cases, Signify may also be creating an asset with no alternative use while having an enforceable right to payment for performance to date. In both instances, revenue is recognized over time. This constitutes a change from previous guidance, where for some contracts recognition of revenue was postponed until all promised goods or services under the contract were completed and the customer had accepted delivery. The impact of this change on the condensed consolidated interim financial statements for the six-month period ended June 30, 2018, is not material.

Signify may incur costs for obtaining a contract, including payments made to agents that depend on winning the contract. Under IFRS 15, incremental costs of obtaining a contract must be recognized as an asset if the costs are expected to be recovered. Those incremental costs are limited to the costs that Signify would not have incurred if the contract had not been successfully obtained (e.g. success fees paid to agents). Signify applies the practical expedient, allowing the incremental costs of obtaining a contract to be expensed if the associated amortization period is 12 months or less. As a result, no amounts of contract costs are recognized as an asset.

Revenue from royalties generally originates from sales- or usage-based royalties. Under IFRS 15, revenue from sales- or usage-based royalties that are attributable to a license of intellectual property is recognized at the later of when the subsequent sale or usage occurs, and the satisfaction or partial satisfaction of the performance obligation to which some or all of the sales- or usage-based royalty has been allocated. Consequently, Signify generally recognizes revenue from these contracts in line with the occurrence of the related sales or usage. This is consistent with accounting under previous guidance.

Contract assets mostly comprise of unbilled receivables, where Signify has, partially or in full, satisfied performance obligations but not yet billed the customer. These are recorded under either Other current receivables or Non-current receivables, for a total amount of EUR 19 million, of which EUR 7 million is classified as current. Contract liabilities consist of deferred revenue and payments received in advance, and are recorded under accrued liabilities or other non-current liabilities, for a total amount of EUR 117 million. From this amount, EUR 67 million is classified as current. Implementation of IFRS 15 has not led to a change in classification or presentation of contract assets and liabilities in Signify's condensed consolidated interim financial statements.

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 9 and IFRS 15, 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, 2017.

Other changes to financial reporting

In March 2018, the Company provided an Investor Relations notification to explain and show the effect of the changes stated below. The comparative figures for 2017 have been restated in order to align with the changes made.

Presentation of Selling and G&A expenses

The Company has reassessed the presentation of Selling and General & Administration (G&A) expenses in the income statement as two separate line items and has decided as of 1 January 2018 to present these as a single line item. This presentation aligns with how management is internally budgeting and monitoring its cost base (controllability model) which changed following the split from Royal Philips. In addition, the presentation into one line is applied by many other companies in our industry and will therefore further enhance comparability.

Change in business portfolio and allocation methods

As of January 1, 2018, the Company reports and discusses its financial performance based on the portfolio changes to further align the organizational structure with the strategy.

Presentation of cashflow statement

The cash flow presentation has been amended to better correspond to the balance sheet and to further improve transparency on cash flow movements.

2.3 IFRS accounting standards to be adopted as from 2019 and onwards

IFRS 16 Leases

IFRS 16 must be adopted for periods beginning on, or after, January 1, 2019.

The Company identified the operating leases which are expected to have an impact and these mainly relate to real estate, fleet and IT. So far, the most significant impact identified is that Signify will recognize assets and liabilities for its operating leases of real estate, while limited exposure is expected from other operating leases. The Company is still determining the estimated impact of these operating leases on the reported assets and liabilities.

The Company intends to apply IFRS 16 using the modified retrospective transition method (also referred to as cumulative effect method) whereby comparative figures are not restated, but instead retained as reported under the previous standards. The cumulative effect of applying IFRS 16 will be accounted for as an adjustment to the opening balance of equity as at the date of initial application (January 1, 2019).

In selecting which practical expedients to apply, the Company has focused on reducing the complexity of implementation. Based on analysis of the options available, the Company will:

- apply the low value and short-term lease exemptions
- use the transition option for leases with a short remaining contract period
- adjust the right-of-use asset by the amount of any provisions for onerous lease provisions recognized under IAS 37 to approximate impairment

Whilst no significant impact is expected for lessor accounting, the Company is an intermediate lessor for some real estate contracts and on transition, the Company will:

- reassess subleases that were previously classified as operating leases and are ongoing at the date of initial application to determine the classification of these leases under IFRS 16; and
- for subleases that were classified as operating leases under IAS 17, but finance leases under IFRS 16, account for the subleases as a new finance lease entered at the date of initial application.

As disclosed in note 25 Contractual Obligations of the Company's 2017

Consolidated financial statements for the year ended December 31, 2017, Signify identified EUR 332 million (undiscounted) of off-balance operating lease obligations.

2.4 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 mainly comprise of certain costs of group enabling functions and certain costs of the activities of Signify Innovation.

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

Signify
Information on income statement by segment in mEUR unless otherwise stated

	Q2 2018					January to June 2018				
	Sales	Sales including intersegment	Depreciation and amortization 1)	EBITA 2)	EBITA as a % of sales	Sales	Sales including intersegment	Depreciation and amortization 1)	EBITA 2)	EBITA as a % of sales
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**	

	Q2 2017					January to June 2017				
	Sales	Sales including intersegment	Depreciation and amortization 1)	EBITA 2)	EBITA as a % of sales	Sales	Sales including intersegment	Depreciation and amortization 1)	EBITA 2)	EBITA as a % of sales
Lamps	449	454	(11)	96	21.3%	939	949	(24)	203	21.7%
LED	477	509	(3)	48	10.0%	945	1,010	(7)	91	9.6%
Professional	669	670	(13)	28	4.2%	1,290	1,292	(25)	39	3.0%
Home	100	101	(3)	7	7.2%	206	207	(5)	6	2.8%
Other 3)	4	5	(7)	(40)		9	13	(13)	(77)	
Intersegment elimination		(38)					(82)			
Signify	**1,699**	**1,699**	**(37)**	**139**	**8.2%**	**3,389**	**3,389**	**(74)**	**262**	**7.7%**
Amortization 4)				(28)					(56)	
Income from operations				**111**					**206**	

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 Others, EBITA as a % of sales for Others is not meaningful.
4) Amortization and impairments of acquisition related intangible assets and goodwill.

For the six-month period ended June 30, 2018, sales consisted primarily (97%) of sales of goods (January to June 2017: 97%).

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:

Signify
Sales, tangible and intangible assets by main countries in mEUR

	Sales		Tangible and intangible assets 1)	
	January to June 2017	January to June 2018	December 31, 2017	June 30, 2018
Netherlands	238	249	129	121
United States	809	650	1,797	1,825
China	230	223	78	79
Germany	214	219	8	7
India	225	209	19	17
Saudi Arabia	87	58	183	181
Other countries	1,586	1,430	534	511
Total countries	**3,389**	**3,038**	**2,748**	**2,741**

1) Including goodwill.

[2] Financial risk management

The aspects of the Company's financial risk management objectives and policies are consistent with these disclosed in the Consolidated financial statements for the year ended December 31, 2017.

[3] Seasonality

The conventional lighting industry generally experiences minor seasonal fluctuations in sales, as the first and fourth quarters of the year (largely correlating with winter in the northern hemisphere) have shorter daylight periods causing higher demand for lighting products than in the second and third quarter 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 Signify, this seasonality effect may most strongly influence sales of Lamps.

However, sales are more strongly influenced by other trends, including the overall decline in sales of Lamps and overall increase in LED sales as a result of the transition from conventional lighting technologies to LED lighting technologies, and the timing of specific projects in the case of sales of Professional.

[4] Depreciation, amortization and impairment

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

Signify
Depreciation, amortization and impairment in mEUR
January to June

	2017	2018
Property, plant and equipment	(61)	(60)
Internal-use software	(4)	(3)
Other intangible assets	(55)	(46)
Development costs	(10)	(7)
Total	**(130)**	**(116)**

Depreciation of property, plant and equipment is primarily included in cost of sales. Amortization of brand names and customer relationships part of intangible assets, is reported in selling, general and administrative expenses. Amortization of technology-based and other intangible assets is reported in cost of sales. Amortization of development costs is included in research and development expenses.

[5] Other business income (expenses)

Other business income (expenses) consists of the following:

Signify
Other business income (expenses) in mEUR
January to June

	2017	2018
Result on disposal of businesses:		
• Income	1	0
• Expense	(0)	(0)
Result on disposal of fixed assets:		
• Income	31	1
• Expense	(0)	(0)
Result on other remaining businesses:		
• Income	2	3
• Expense	(4)	(12)
Other business income (expenses)	**30**	**(7)**
Total other business income	34	5
Total other business expense	(4)	(12)

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. Signify is petitioning to the state Supreme Court to accept this ruling of the intermediate court for review.

For the six-month period ended June 30, 2017, the result on disposal of fixed assets is mostly related to the sale of real estate. It includes a EUR 15 million gain mainly allocated to Lamps and a gain of EUR 15 million in Home.

[6] 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 2018 decreased by EUR 28 million compared to the corresponding period of the previous year, mainly the result of lower income for the first half of 2018.
The effective tax rate for the first half was 30.7% compared to 26.9% in 2017. The increase in the effective tax rate is primarily due to lower year-to-date income in 2018.

[7] Property, plant and equipment

Property, plant and equipment decreased by EUR 26 million during the six-month period ended June 30, 2018, mainly due to depreciation of EUR 54 million (six-month period ended June 30, 2017: EUR 59 million) and impairment charges of EUR 7 million (six-month period ended June 30, 2017: EUR 2 million) partly offset by additions of EUR 36 million (six-month period ended June 30, 2017: EUR 37 million).

[8] Goodwill

For information regarding the most recent impairment test of the different cash-generating units, including Professional, reference is made to note 14, Goodwill in the Company's Consolidated financial statements for the year ended December 31, 2017.
No events have been identified by management in the first six months of 2018 that required an update of the mentioned impairment tests.

[9] Intangible assets excluding goodwill

The changes in intangible assets excluding goodwill for the six-month period ended June 30, 2018 are summarized as follows:

Signify
Intangible assets movements schedule in mEUR

	Product development	Technology based	Customer relationships	Brand names	Software	Other	Total
Balance as of January 1, 2018							
Cost	167	339	1,142	331	27	12	2,018
Accumulated amortization/ impairment	(141)	(252)	(807)	(234)	(15)	(6)	(1,455)
Book value	**26**	**87**	**335**	**97**	**12**	**6**	**562**
Change in book value:							
Additions	5	2	-	-	4	-	12
Amortization	(7)	(9)	(31)	(6)	(3)	(0)	(55)
Acquisitions	-	-	-	-	-	-	-
Impairment	(0)	-	-	-	(0)	-	(0)
Translation differences and other movements	1	1	7	3	(0)	0	12
Total changes	**(1)**	**(6)**	**(24)**	**(4)**	**1**	**(0)**	**(32)**
Balance as of June 30, 2018							
Cost	151	349	1,168	337	30	12	2,047
Accumulated amortization/ impairment	(126)	(267)	(857)	(244)	(17)	(6)	(1,517)
Book value	**25**	**81**	**311**	**93**	**13**	**5**	**530**

[10] Inventories

Signify
Inventories in mEUR

	December 31, 2017	June 30, 2018
Raw materials	300	329
Work in progress	25	27
Finished goods	599	653
Total	**924**	**1,009**

For the six-month period ended June 30, 2018, the amount of write-down of inventories to realizable value was EUR 9 million (six-month period ended June 30, 2017: EUR 8 million).

[11] 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, 2018, the issued share capital of the Company consisted of 138,000,000 ordinary shares with a nominal value of EUR 0.01 per share. No preference shares have been issued.

As of June 30, 2018, 18.31% (December 31, 2017: 29.01%) of the issued share capital were held by Royal Philips, 80.03% (December 31, 2017: 68.31%) were publicly traded at Euronext Amsterdam and 1.66% (December 31, 2017: 2.68%) were held as treasury shares.

Dividend distribution

In May 2018, the Company settled a dividend of EUR 1.25 per ordinary share, representing a total value of EUR 171 million including costs.

Share repurchases and cancellations

In February 2018, 2,800,000 shares were cancelled. The Company acquired these shares for cancellation purposes for a consideration of EUR 90 million in November 2017.

In February 2018, the Company announced

that it intends to return up to EUR 150 million to its shareholders by participating in share disposals by its main shareholder. In line with this intention, in February 2018, 2,200,000 shares were acquired for cancellation purposes for a consideration of EUR 71 million. These shares were cancelled in May 2018. In July 2018, the company decided to increase the amount allocated for share repurchases to EUR 300 million. The company intends to repurchase additional shares for up to EUR 229 million in the remainder of 2018, either in the open market or by participating in share disposals by its main shareholder.

In May 2018, the Company completed a share repurchase program to cover obligations arising from its share-based compensation plans. The total number of shares repurchased were 1,300,000 for a total consideration of EUR 33 million.

Treasury shares

As of June 30, 2018, the total number of treasury shares amounted to 2,293,305 which were purchased at an average price of EUR 28.90 per share.

[12] Short-term and long-term debt

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

Signify
Short-term and long-term debt in mEUR

	December 31, 2017	June 30, 2018
Facility (EUR)	736	737
Facility (USD)	417	432
Finance lease	19	20
Other Debt	120	87
Subtotal	**1,292**	**1,276**
Bank overdrafts	17	10
Total	**1,309**	**1,286**
Of which:		
Short-term debt	140	101
Long-term debt	1,170	1,185
Total	**1,309**	**1,286**

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 as of June 30, 2018 at 0.65% 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. The main other debt position are loans of Signify in Saudi Arabia amounting to EUR 19 million (2017: EUR 45 million) with a nominal average interest rate of 4.19% and which are denominated in SAR.

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

Signify
Movement schedule of short and long term debt in mEUR

	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)
Translation differences and other movements	16	(7)	9
Balance as of June 30, 2018	**1,185**	**101**	**1,286**

[13] Provisions

Provisions are summarized as follows:

Signify
Provisions in mEUR

	December 31, 2017		June 30, 2018	
	Long-term	Short-term	Long-term	Short-term
Provision for defined benefits	497	-	507	-
Restructuring related provisions	37	108	34	107
Environmental provisions	104	26	92	30
Product warranty	15	31	15	30
Other provisions	124	40	135	28
Total	**777**	**204**	**783**	**195**

The decrease in provisions was mainly attributable to usage of the environmental provisions.

With regard to provision for defined benefits, no significant market fluctuations occurred during the first six months of 2018 which would require re-measurement under IAS 34.

[14] 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 17, Related party transactions.

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, including discussions on potential remedial actions, relating to commercial transactions, intellectual property disputes, product liability, environmental pollution and business conduct rules.

For information regarding legal, regulatory and arbitration proceedings in which the Company is involved, please refer to note 26 in the Consolidated financial statements for the year ended December 31, 2017.

[15] Share-based compensation

Total share-based compensation costs for Signify for the six-month period ended June 30, 2018 were EUR 17 million (six-months period ended June 30, 2017: EUR 18 million). 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 Long-term Incentive Plan (“Royal Philips LTI Plan”). Of the EUR 18 million share-based compensation costs for the six-month period ended June 30, 2017, EUR 4 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, 2018, Signify granted 1,170,956 performance shares, 263,171 conditional shares and 28,200 restricted shares to its employees and members of the Board of Management. For the same period, a total of 32,616 vested shares (performance, conditional, and restricted) were delivered to Signify employees.
At the end of 2017 Signify introduced a one-time special performance share award to a limited group of key employees below the level of the Board of Management. The purpose of this award is to focus these key leaders on achieving the company’s 2019 operational profitability objective. This award is equity settled.

Royal Philips LTI Plan
In the six-month period ended June 30, 2018, a total of 1,540,533 shares (performance and restricted) vested and were delivered to Signify employees and members of the Board of Management of Signify by Royal Philips.

[16] Financial assets and liabilities

The IFRS 9 classification and measurement requirements are applicable as of January 1, 2018 for financial assets and liabilities. Under the new standard, the classification and measurement requirements have no material impact on Signify’s condensed consolidated interim financial statements.

According to IFRS 9, the classification and measurement of trade and other accounts receivable, loans receivable, accounts and notes payable and interest bearing debt, are classified as financial assets and liabilities carried at amortised cost. Derivative assets and liabilities are classified as financial assets and liabilities through profit and loss. Available-for sale investments in equity securities are classified as financial assets via other comprehensive income.

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 amortised 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.

Signify
Fair value hierarchy in mEUR

	Level 1	Level 2	Level 3	Total
Balance as of December 31, 2017				
Derivative financial instruments - assets	-	16	-	16
Fair value through profit and loss - non-current	-	-	1	1
Available-for-sale financial assets	-	-	2	2
Total	-	**16**	**3**	**19**
Derivative financial instruments - liabilities	-	(8)	-	(8)
Total	-	**(8)**	-	**(8)**
Balance as of June 30, 2018				
Financial assets at fair value through profit and loss				
Derivatives designated as hedging instruments	-	24	-	24
Derivatives not designated as hedging instruments	-	-	2	2
Equity instruments at fair value through OCI				
Unquoted equity shares	-	-	2	2
Total	**-**	**24**	**4**	**28**
Financial liabilities at fair value through profit and loss				
Derivatives designated as hedging instruments	-	(19)	-	(19)
Total	**-**	**(19)**	**-**	**(19)**

[17] Related party transactions

These condensed consolidated interim financial statements include transactions with Royal Philips and its group companies that are outside of Signify. Royal Philips is a related party as it had significant influence on Signify during the periods presented.

Transactions during the period mainly relate to the brand license fee and the Transitional Service Level Agreement, based on which Royal Philips provides Signify with certain services such as IT, real estate, human resources among others.

Signify uses the Philips brand name under the trademark license agreement with Royal Philips.

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

Signify
Related party transactions in mEUR
January to June

	2017	2018
Sales to Royal Philips	6	6
Purchases from Royal Philips	(11)	(3)
Repurchases of shares from Royal Philips	(183)	(71)
Movement in funding from (to) Royal Philips	1	(1)
Brand license fee costs	(19)	(18)
Transition Service Level Agreement costs	(25)	(18)

Signify
Related party balances in mEUR

	December 31, 2017	June 30, 2018
Accounts receivable from Royal Philips	7	4
Accounts payable to Royal Philips	(26)	(18)
Indemnification receivable from Royal Philips	26	24
Indemnification payable to Royal Philips	(75)	(74)

In addition to these transactions and balances, please refer to note 15 Share-based compensation for disclosures on the Royal Philips LTI Plan.

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

Appendix B - Reconciliation of non-IFRS financial measures

Signify
Sales growth composition per business in %
Q2

2018-2017	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Lamps	(16.4)	(5.1)	(0.3)	(21.8)
LED	0.0	(6.7)	(0.5)	(7.2)
Professional	3.6	(5.3)	(0.7)	(2.5)
Home	(5.9)	(3.2)	(2.0)	(11.1)
Others	(48.4)	(2.0)	-	(50.5)
Total	**(3.4)**	**(5.5)**	**(0.6)**	**(9.5)**

Signify
Sales growth composition per business in %
January to June

2018-2017	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Lamps	(17.0)	(5.8)	(0.3)	(23.1)
LED	1.8	(7.4)	(0.5)	(6.2)
Professional	3.4	(6.2)	(0.7)	(3.5)
Home	(6.2)	(3.9)	(2.1)	(12.2)
Others	(61.2)	(1.9)	-	(63.1)
Total	**(3.4)**	**(6.3)**	**(0.6)**	**(10.4)**

Signify
Sales growth composition per market in %
Q2

2018-2017	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(1.1)	(1.0)	-	(2.1)
Americas	(8.4)	(8.9)	(0.4)	(17.7)
Rest of the World	(0.4)	(7.6)	(1.2)	(9.1)
Global businesses	(4.4)	(1.4)	(1.8)	(7.6)
Total	**(3.4)**	**(5.5)**	**(0.6)**	**(9.5)**

Signify
Sales growth composition per market in %
January to June

2018-2017	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(0.9)	(0.8)	-	(1.7)
Americas	(9.2)	(10.3)	(0.4)	(19.9)
Rest of the World	(0.5)	(8.6)	(1.2)	(10.3)
Global businesses	(2.6)	(2.8)	(2.0)	(7.5)
Total	**(3.4)**	**(6.3)**	**(0.6)**	**(10.4)**

Signify
Adjusted EBITA to Income from operations (or EBIT) in mEUR
Q2

	Signify	Lamps	LED	Professional	Home	Others
2018						
Adjusted EBITA	130	74	47	55	(25)	(21)
Restructuring	(35)	(3)	(4)	(17)	(4)	(8)
Acquisition-related charges	(0)	0	-	(0)	-	-
Incidental items	(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)**
2017						
Adjusted EBITA	159	93	50	52	(6)	(30)
Restructuring	(30)	3	(3)	(23)	(2)	(5)
Acquisition-related charges	0	-	-	0	-	-
Incidental items	10	-	-	-	15	(5)
EBITA	**139**	**96**	**48**	**28**	**7**	**(40)**
Amortization [1]	(28)	(0)	(1)	(26)	(1)	(0)
Income from operations (or EBIT)	**111**	**95**	**47**	**3**	**7**	**(40)**

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

Signify
Adjusted EBITA to Income from operations (or EBIT) in mEUR
January to June

	Signify	Lamps	LED	Professional	Home	Others
2018						
Adjusted EBITA	235	153	90	86	(46)	(47)
Restructuring	(74)	(19)	(5)	(20)	(5)	(25)
Acquisition-related charges	(0)	(0)	-	(0)	-	-
Incidental items	(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)**
2017						
Adjusted EBITA	286	193	90	64	(5)	(56)
Restructuring	(41)	0	(3)	(27)	(3)	(8)
Acquisition-related charges	(0)	-	-	(0)	-	-
Incidental items	16	10	3	2	15	(14)
EBITA	**262**	**203**	**91**	**39**	**6**	**(77)**
Amortization [1]	(56)	(0)	(2)	(52)	(1)	(1)
Income from operations (or EBIT)	**206**	**203**	**88**	**(13)**	**5**	**(78)**

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

Signify

Income from operations to Adjusted EBITA in mEUR

Q2

2018	**Reported**	**Restructuring**	**Acquisition related charges**	**Incidental items**	**Adjusted**
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	-	-	0	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**
2017					
Sales	1,699	-	-	-	1,699
Cost of sales	(1,024)	3	-	(0)	(1,021)
Gross margin	**676**	**3**	**-**	**(0)**	**678**
					-
Selling, general and administrative expenses	(488)	19	(0)	5	(463)
Research and development expenses	(93)	8	-	-	(85)
Indirect costs	**(581)**	**27**	**(0)**	**5**	**(549)**
Impairment of goodwill	-	-	-	-	-
Other business income	18	-	-	(15)	3
Other business expenses	(1)	-	-	-	(1)
Income from operations	**111**	**30**	**(0)**	**(10)**	**131**
Amortization [1]	(28)	-	-	-	(28)
Income from operations excluding amortization (EBITA)	**139**	**30**	**(0)**	**(10)**	**159**

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

Signify

Income from operations to Adjusted EBITA in mEUR

January to June

2018	**Reported**	**Restructuring**	**Acquisition related charges**	**Incidental items**	**Adjusted**
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	(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**
2017					
Sales	3,389	-	-	-	3,389
Cost of sales	(2,047)	6	-	(0)	(2,040)
Gross margin	**1,343**	**6**	**-**	**(0)**	**1,349**
					-
Selling, general and administrative expenses	(985)	26	0	13	(946)
Research and development expenses	(182)	9	-	-	(173)
Indirect costs	**(1,167)**	**35**	**0**	**13**	**(1,119)**
					-
Impairment of goodwill	-	-	-	-	-
Other business income	34	-	-	(29)	5
Other business expenses	(4)	-	-	-	(4)
Income from operations	**206**	**41**	**0**	**(16)**	**231**
Amortization [1]	(56)	-	-	-	(56)
Income from operations excluding amortization (EBITA)	**262**	**41**	**0**	**(16)**	**286**

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

Signify

Composition of cash flows in mEUR

	Q2		January to June	
	2017	2018	2017	2018
Cash flows from operating activities	(17)	(9)	(14)	6
Cash flows from investing activities	(15)	(36)	(17)	(45)
Cash flows before financing activities	**(31)**	**(45)**	**(31)**	**(38)**
Cash flows from operating activities	(17)	(9)	(14)	6
Net capital expenditures:	(10)	(22)	(12)	(43)
• Additions of intangible assets	(5)	(5)	(11)	(12)
• Capital expenditures on property, plant and equipment	(22)	(18)	(37)	(33)
• Proceeds from disposal of property, plant and equipment	18	1	36	1
Free cash flows	**(27)**	**(31)**	**(26)**	**(37)**

Signify

Working capital to total assets in mEUR

	Balance as of June 30, 2017	Balance as of December 31, 2017	Balance as of June 30, 2018
Working capital	789	597	694
Eliminate liabilities comprised in WoCa:			
• Accounts and notes payable	1,035	1,001	967
• Accrued liabilities	434	475	414
• Derivative financial liabilities	11	8	19
• Other current liabilities	326	309	300
Include assets not comprised in WoCa:			
• Non-current assets	3,551	3,306	3,317
• Income tax receivable	55	39	35
• Current financial assets	0	0	4
• Cash and cash equivalents	612	942	598
• Assets classified as held for sale	3	1	7
Total assets	**6,816**	**6,678**	**6,355**

Appendix C - Financial glossary

Acquisition-related charges	Costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses
Adjusted EBITA	EBITA excluding restructuring costs, acquisition-related charges and other incidental charges
Adjusted EBITA margin (%)	Adjusted EBITA divided by Sales to third parties (excluding intersegment)
Adjusted gross margin	Gross margin, excluding restructuring costs, acquisition-related charges and other incidental items attributable to cost of sales
Adjusted indirect costs	Indirect costs, excluding restructuring costs, acquisition-related charges and other incidental items attributable to indirect costs
Adjusted R&D expenses	Research and development expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to research and development expenses
Adjusted SG&A expenses	Selling, general and administrative expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to selling, general and administrative expenses
Comparable sales growth	The period-on-period growth in sales excluding the effects of currency movements and changes in consolidation and other changes
EBIT	Income from operations
EBITA	Income from operations excluding amortization and impairment of acquisition related intangible assets and goodwill
EBITDA	Income from operations excluding depreciation, amortization and impairment of non-financial assets
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 previous periods' foreign currency amounts into euro at the following periods' exchange rates in comparison to the euro as historically reported
Employees	Employees of Signify at period end expressed on a full-time equivalent (FTE) basis
Free cash flow	Net cash provided by operations minus net capital expenditures. Free cash flow includes interest paid and income taxes paid

Gross margin	Sales minus cost of sales
Indirect costs	The sum of selling, 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, and intangible assets
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
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.