Press Release

July 24, 2020

Signify reports second quarter sales of EUR 1.5 billion, maintains operational profitability of 9.0% and generates a free cash flow of EUR 158 million

Second quarter 2020[1] – Demonstrating resilience in a challenging market environment

- Signify's installed base of connected light points increased from 61 million in Q1 20 to 64 million[2] in Q2 20
- Sales of EUR 1,469m, nominal sales growth of -0.6% and CSG of -22.5%
- LED-based sales represented 80% of total sales (Q2 19: 79%[3])
- Adj. indirect costs down EUR 86 million, or -19.1%, excl. currency effects and changes in scope
- Adj. EBITA margin remained stable at 9.0%, including currency impact of -60 bps
- Adj. EBITA margin of the growing profit engines increased by 100 bps to 9.5%
- Net income increased to EUR 81 million (Q2 19: EUR 50 million) mainly due to one-off items
- Free cash flow increased to EUR 158 million (Q2 19: EUR 121 million)
- Cooper Lighting cost synergies ahead of plan
- Signify to achieve carbon neutrality before the end of the year

COVID-19 update – Fast adaptation while maintaining stringent health & safety standards

- Health & safety of our employees and stakeholders remained our number one priority; 79% of all locations re-opened under stringent health & safety conditions
- A broad range of mitigating actions was successfully implemented to protect profitability and cash flow
- Over 85% participation in voluntary worktime reduction and a record-high employee NPS score attest to the high engagement of our employees
- We are increasing our UV-C light source production capacity by a factor 8; we are launching 12 families of UV-C based products; we have invested in upper-room air disinfection systems by acquiring GLA

Eindhoven, the Netherlands – Signify (Euronext: LIGHT), the world leader in lighting, today announced the company's 2020 second quarter results. "In Q2, the engagement of our teams to face the challenges posed by the pandemic have been second to none. The implementation of the safety measures helped to keep our people safe. We successfully managed to maintain operational profitability while improving free cash flow in adverse conditions. I am proud to finish the quarter with a strengthened cohesion across the organization, evidenced by our highest ever employee Net Promotor Score," said CEO Eric Rondolat. "We remain very cautious about market developments but confident on our ability to further adapt. The disciplined execution of our strategy and the acceleration of the integration of Cooper Lighting will continue to drive our growth platforms and new business opportunities. Last but not least, let me share our excitement for achieving carbon neutrality in 2020, and for renewing our five-year sustainability program with even more ambitious commitments later in the year."

[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.
[2]Excluding Cooper Lighting
[3]Pro-forma incl. Cooper Lighting and Klite

Resilience in a challenging quarter

Health & safety of Signify's employees and stakeholders remained the number one priority. 79% of all our locations are open. The supply chain is 98% operational and employees are gradually returning to the offices in a structured and safe way. At a very early stage of the COVID-19 outbreak, Signify identified a broad range of mitigating actions to preserve profitability. These measures included non-structural cost savings of EUR 43 million in the second quarter, related to solidarity measures which were supported by our employees and government contributions. Next to this, the company has also implemented a range of measures to safeguard free cash flow, of which EUR 40 million was related to a temporary positive impact from real estate proceeds and government-extended payment terms for taxes.

Continuous commitment to Sustainability

In the first half of 2020:

- Sustainable revenues represented 83% of the total revenues, exceeding 2020 target of 80%.
- Signify sold 2.6 billion LED lamps and luminaires in the period from 2015 till the first half of 2020, well ahead of its commitment to deliver more than 2 billion LED lamps and luminaires by the end of 2020.
- The company also decreased its waste to landfill in Q2 by 89% compared with last year and is ahead of its targets related to a safe & healthy workplace and a sustainable supply chain.
- The company reduced its carbon footprint by 26% compared with last year and is well on track to achieve carbon neutrality this year.

In June 2020, Signify announced that it will start phasing out plastics with the aim to be plastic-free on all consumer-related packaging in 2021.

New sustainability targets as part of our coming five-year program will be announced in the second half of 2020.

Outlook

Considering the persistent uncertainty about the future course of the pandemic, and the length and depth of the impact on the global economy, Signify still does not provide financial guidance at this point in time. However, Signify is confident in the underlying resilience of its businesses and operating model, and that its liquidity needs are well covered by the financial framework it has in place. In line with the company's policy to prioritize future deleveraging, Signify confirms its intention to utilize up to EUR 350 million to reduce gross debt in 2020.

Financial review

Second quarter 2019	Second quarter 2020	change	*in millions of EUR, except percentages*	Six months 2019	Six months 2020	change
		-22.5%	**Comparable sales growth**			**-19.1%**
		-0.8%	*Effects of currency movements*			*0.1%*
		22.7%	*Consolidation and other changes*			*17.0%*
1,477	**1,469**	-0.6%	**Sales**	**2,955**	**2,896**	-2.0%
557	567	1.8%	Adjusted gross margin	1,114	1,112	-0.2%
37.7%	**38.6%**		**Adj. gross margin (as % of sales)**	**37.7%**	**38.4%**	
-383	-401		Adj. SG&A expenses	-778	-794	
-67	-67		Adj. R&D expenses	-136	-134	
-449	-468	-4.2%	Adj. indirect costs	-914	-928	-1.6%
30.4%	**31.9%**		**Adj. indirect costs (as % of sales)**	**30.9%**	**32.0%**	
133	133	0.1%	Adjusted EBITA	247	245	-1.0%
9.0%	**9.0%**		**Adjusted EBITA margin**	**8.4%**	**8.5%**	
-28	-13		Adjusted items	-50	-55	
104	119	14.4%	EBITA	198	189	-4.2%
80	**87**	**8.9%**	**Income from operations (EBIT)**	**149**	**130**	**-12.6%**
-12	-16		Net financial income/expense	-21	-26	
-19	10		Income tax expense	-35	4	
50	**81**	**61.5%**	**Net income**	**95**	**108**	**14.4%**
121	158		Free cash flow	175	270	
0.41	0.62		Basic EPS (€)	0.76	0.85	
28,144	35,789		Employees (FTE)	28,144	35,789	

Second quarter

Sales amounted to EUR 1,469 million, a nominal decrease of 0.6%. Adjusted for 0.8% negative currency effects and 22.7% consolidation and other changes (mainly related to the acquisitions of Cooper Lighting and Klite), comparable sales decreased by 22.5% mainly due to the impact of the COVID-19 pandemic. LED-based sales accounted for 80% of total sales. The adjusted gross margin increased by 90 bps to 38.6%, including a currency effect of -50 bps. The adjusted indirect costs increased by EUR 19 million. Excluding currency effects and changes in scope, the adjusted indirect costs are down EUR 86 million, or -19.1%. Adjusted EBITA amounted to EUR 133 million, the same amount as last year. The Adjusted EBITA margin remained stable at 9.0%, as a result of the cost measures taken. Total restructuring costs were EUR 2 million and acquisition-related charges and other incidentals were EUR 11 million. Net income increased from EUR 50 million last year to EUR 81 million in Q2 20, mainly as a result of lower restructuring costs and one-time non-cash tax benefits from changes in the organizational structure. Free cash flow amounted to EUR 158 million, reflecting maintained profitability, strong working capital management, the consolidation of Cooper Lighting, lower cash tax paid, and proceeds from the sale of real estate.

Growing profit engines

In percentages	CSG		Adj. EBITA margin	
	Q2 2019	**Q2 2020**	**Q2 2019**	**Q2 2020**
Digital Solutions	-5.6%	-22.4%	8.8%	9.6%
Digital Products	1.8%	-21.1%	8.2%	9.3%
Growing profit engines	**-2.3%**	**-21.9%**	**8.5%**	**9.5%**

Second quarter
Comparable sales of the growing profit engines declined by 21.9% due to the spread of COVID-19 and the subsequent measures taken by governments and customers. Despite the decline in top-line, the growing profit engines have improved the Adjusted EBITA margin by 100 bps to 9.5%, with both divisions improving their profitability, driven by an increase in gross margin and indirect cost savings.

Digital Solutions

Second quarter				Six months		
2019	2020	change	*in millions of EUR, unless otherwise indicated*	2019	2020	change
		-22.4%	Comparable sales growth			-18.9%
632	781	23.6%	Sales	1,231	1,420	15.4%
55	75	35.2%	Adjusted EBITA	87	118	34.7%
8.8%	9.6%		Adjusted EBITA margin	7.1%	8.3%	
42	59	41.0%	EBITA	66	77	17.9%
20	29	48.4%	Income from operations (EBIT)	21	23	8.0%

Second quarter
Sales amounted to EUR 781 million, a nominal increase of 23.6% as a result of the consolidation of Cooper Lighting. Comparable sales declined by 22.4% and reflects a significant decline in demand across all regions. The most severely impacted markets were North America, India, and France. LED-based sales accounted for 91% of total sales including Cooper Lighting. Connected-based sales represented 18% of total sales excluding Cooper Lighting. Adjusted EBITA amounted to 75 million, resulting in an improvement in the Adjusted EBITA margin of 80 bps to 9.6% that was driven by an increase in gross margin and indirect cost savings.

Digital Products

Second quarter				Six months		
2019	2020	change	*in millions of EUR, unless otherwise indicated*	2019	2020	change
		-21.1%	Comparable sales growth			-17.9%
552	473	-14.2%	Sales	1,116	1,002	-10.2%
45	44	-2.2%	Adjusted EBITA	92	91	-0.4%
8.2%	9.3%		Adjusted EBITA margin	8.2%	9.1%	
39	43	11.0%	EBITA	83	81	-2.4%
37	41	10.2%	Income from operations (EBIT)	80	77	-3.9%

Second quarter
Sales amounted to EUR 473 million, a nominal decrease of 14.2% and a decrease of 21.1% on a comparable basis. LED-based sales accounted for 98% of total sales in Digital Products and connected-based sales represented 14% of total sales. While overall demand was significantly impacted by the measures taken by governments and customers, online sales in the consumer channel showed a solid performance. Furthermore, sell-out rates for connected home lighting remained strong. Adjusted EBITA amounted to EUR 44 million,

resulting in an improvement in the Adjusted EBITA margin of 110 bps to 9.3%, as a result of positive mix impact, reduced price erosion and an improved cost structure in connected home lighting.

Conventional Products

Second quarter				Six months		
2019	2020	change	*in millions of EUR, unless otherwise indicated*	2019	2020	change
		-25.2%	Comparable sales growth			-21.4%
286	211	-26.5%	Sales	595	468	-21.4%
56	37	-33.9%	Adjusted EBITA	119	82	-30.9%
19.5%	17.5%		Adjusted EBITA margin	20.0%	17.6%	
50	45	-11.1%	EBITA	111	84	-24.4%
50	45	-11.0%	Income from operations (EBIT)	111	84	-24.2%

Second quarter
Sales amounted to EUR 211 million, a comparable decrease of 25.2%. Despite the impact of the pandemic, Conventional Products showed a solid performance partly as a result of strong demand for UV-C lighting and horticulture lighting. The division continues to deliver on its 'last company standing' strategy, which resulted in further market share gains and solid free cash flow generation. The Adjusted EBITA margin remained robust at 17.5%.

Other

Second quarter
Other represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions. Adjusted EBITA amounted to EUR -23 million (Q2 19: EUR -24 million). EBITA amounted to EUR -28 million (Q2 19: EUR -27 million), including restructuring costs of EUR 2 million (Q2 19: EUR 3 million). Incidental items amounted to EUR -2 million (Q2 19: EUR 0 million).

Sales by market

Second quarter					Six months			
2019	2020	Change	CSG	*in millions of EUR, except percentages*	2019	2020	change	CSG
500	406	-18.9%	-17.2%	Europe	1,033	908	-12.1%	-11.5%
433	615	42.3%	-23.6%	Americas	862	1,099	27.5%	-20.1%
458	321	-29.9%	-28.5%	Rest of the World	890	646	-27.4%	-27.3%
86	126	46.8%	-15.1%	Global businesses	170	243	42.6%	-15.7%
1,477	**1,469**	**-0.6%**	**-22.5%**	**Total**	**2,955**	**2,896**	**-2.0%**	**-19.1%**

Americas include Cooper Lighting and Global businesses include Klite

Second quarter
Comparable sales in Europe decreased by 17.2%, mainly reflecting challenging market conditions in France, Spain and Italy. Comparable sales in the Americas decreased by 23.6%, due to the ongoing decline in Conventional Products and more challenging market conditions. In the Rest of the World, comparable sales decreased by 28.5%, with a particular impact in India and Southeast Asia. In China, demand is gradually recovering although not yet back to pre-COVID-19 levels.

Working capital

in millions of EUR, unless otherwise indicated	30 June, 2019	31 March, 2020	30 June, 2020
Inventories	999	1,019	1,032
Trade and other receivables	1,203	1,173	1,096
Trade and other payables	(1,627)	(1,673)	(1,659)
Other working capital items	(72)	(49)	(17)
Working capital	**503**	**470**	**452**
As % of LTM* sales	8.0%	7.6%	7.3%

* *LTM: Last Twelve Months*

Second quarter
Working capital improved by EUR 51 million to EUR 452 million year-on-year, mainly driven by lower receivables and higher payables, notwithstanding the addition of Cooper Lighting's working capital. Working capital represents 7.3% of sales, compared with 8.0% at the end of June 2019. Working capital improved by 170 bps to 6.3% of sales when including pro-forma last-twelve-months sales for both Cooper Lighting and Klite.

Cash flow analysis

Second quarter			Six months	
2019	2020	*in millions of EUR*	2019	2020
80	87	Income from operations (EBIT)	149	130
67	86	Depreciation and amortization	137	164
29	24	Additions to (releases of) provisions	70	57
-53	-47	Utilizations of provisions	-110	-99
56	22	Change in working capital	27	74
-6	-13	Net interest and financing costs paid	-10	-23
-20	0	Income taxes paid	-39	-28
-27	-5	Net capex	-37	-21
-8	3	Other	-12	16
121	**158**	Free cash flow	**175**	**270**

Second quarter
Free cash flow increased by EUR 37 million to EUR 158 million. This is reflecting the consolidation of Cooper Lighting, lower cash tax paid, and proceeds from the sale of real estate (EUR 20 million). Free cash flow included a restructuring payout of EUR 12 million (Q2 19: EUR 27 million).

	Six months	
In millions of EUR	2019	2020
Digital Solutions	96	132
Digital Products	125	173
Conventional Products	102	91
Other*	-148	-125
Signify total	**175**	**270**

* Non-allocated free cash flow items (e.g. tax, interest)

In the first half of 2020, free cash flow of Digital Solutions significantly increased by EUR 36 million to EUR 132 million. Free cash flow of Digital Products improved by EUR 48 million to EUR 173 million. In Conventional Products, free cash flow decreased by EUR 11 million to EUR 91 million. The free cash flow of the growing profit engines was more than three times the level of the free cash flow of Conventional Products.

Net debt

in millions of EUR	30 June, 2019	31 March, 2020	30 June, 2020
Short-term debt	147	95	113
Long-term debt	1,339	2,639	2,619
Gross debt	1,486	2,734	2,732
Cash and cash equivalents	621	924	1,026
Net debt	**865**	**1,810**	**1,706**
Total equity	**2,056**	**2,334**	**2,341**

Second quarter
Signify's cash position has increased by EUR 102 million to EUR 1,026 million compared with the end of March 2020. Net debt amounted to EUR 1,706 million, a decrease of EUR 104 million compared with the end of March 2020.

Total equity increased to EUR 2,341 million at the end of Q2 (Q1 20: EUR 2,334 million), primarily due to net income offset by currency translation.

Despite the challenges the COVID-19 pandemic is causing, Signify is confident in the underlying resilience of its businesses and operating model, and that its liquidity needs are well covered by the financial framework it has in place. Signify's focus remains on maintaining a robust capital structure and on its policy to prioritize future deleveraging to support its commitment to an investment grade credit rating. The company confirms its intention to utilize up to EUR 350 million to reduce gross debt in 2020.

Other information

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

Conference call and audio webcast
Eric Rondolat (CEO) and René van Schooten (CFO) will host a conference call for analysts and institutional investors at 9:00 a.m. CET to discuss second quarter and first half 2020 results. A live audio webcast of the conference call will be available via the Investor Relations website.

Financial calendar 2020

October 23, 2020	Third quarter results 2020
January 29, 2021	Fourth quarter and full year results 2020

For further information, please contact:

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About Signify
Signify (Euronext: LIGHT) is the world leader in lighting for professionals and consumers and lighting for the Internet of Things. Our Philips products, Interact connected lighting systems and data-enabled services, deliver business value and transform life in homes, buildings and public spaces. With 2019 sales of EUR 6.2 billion, we have approximately 36,000 employees and are present in over 70 countries. We unlock the extraordinary potential of light for brighter lives and a better world. We have been named Industry Leader in the Dow Jones Sustainability Index for three years in a row. News from Signify is located at the Newsroom, Twitter, LinkedIn and Instagram. Information for investors can be found on the Investor Relations page.

Important Information

Forward-Looking Statements and Risks & Uncertainties

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

By their nature, these statements involve risks and uncertainties facing the Company and its Group companies, and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of COVID-19, rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, reputational and adverse effects on business due to activities in Environment, Health & Safety, compliance risks, ability to attract and retain talented personnel, adverse currency effects, pension liabilities, and exposure to international tax laws. Please see "Risk Factors and Risk Management" in Chapter 12 of the Annual Report 2019 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 2019.

Looking ahead to the second half of 2020, the Group is primarily concerned about the challenging macro conditions and political uncertainties, particularly related to the COVID-19 pandemic, 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 2019.

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 2019 and semi-annual report 2020.

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, 2020

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, 2020 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 2020 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, 2019.

Responsibility statement
The Board of Management of the Company hereby declares that, to the best of its knowledge, the semi-annual condensed consolidated interim financial statements for the six-month period ended June 30, 2020, which have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the semi-annual management report for the six-month period ended June 30, 2020, 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 24, 2020

Board of Management

Eric Rondolat
René van Schooten
Maria Letizia Mariani

Management report

Business performance [1)]

COVID-19

The first half of 2020 represented a challenging start of 2020 as a consequence of the COVID-19 crisis. From the start of the outbreak, Signify has been very agile and thorough in dealing with the challenges through global and local crisis response teams. The company has protected the health & safety of all its employees, while fulfilling customer needs and leveraging its global supply chain to ensure business continuity. Signify has implemented a broad range of mitigating actions to preserve profitability. These measures include savings in, amongst others, selling expenses, travel costs and procurement costs. In addition, over 85% of Signify's employees volunteered for 20% worktime reduction and a pro-rata pay adjustment for three months. All these measures have resulted in indirect cost savings of EUR 141 million excluding currency effects and changes in scope. The company has also implemented a range of measures to safeguard cash flow, including rigorous working capital management, a curtailment of uncommitted and non-essential capital expenditure, and the withdrawal of the dividend proposal.

Financial performance

Sales amounted to EUR 2,896 million, a decrease of 2.0% on a nominal basis. Adjusted for 0.1% currency effect and 17.0% consolidation and other impact (mainly related to the acquisitions of Cooper Lighting Solutions and Klite), comparable sales were 19.1% lower than in the first half of 2019 mainly due to the COVID-19 crisis. Comparable LED-based sales accounted for 79% of total sales, including Cooper Lighting. The gross margin increased by 70 basis points to 38.0%. The adjusted indirect costs increased by EUR 14 million. Excluding currency effects and changes in scope, the adjusted indirect costs are down EUR 141 million, or -15.5% compared with last year. Adjusted EBITA amounted to EUR 245 million. The Adjusted EBITA margin improved by 10 basis points to 8.5%, as a result of the cost measures taken and included a currency effect of -30 basis points. Total restructuring costs were EUR 15 million. Acquisition-related charges and other incidentals were EUR 40 million mainly related to the acquisitions of Cooper Lighting and Klite. Net income was EUR 108 million compared with EUR 95 million last year mainly as a result of one-time non-cash tax benefits from changes in the organizational structure.
Compared with the end of June 2019, working capital as percentage of sales decreased by 70 basis points to 7.3% of sales, reflecting continued focus on improving working capital. Net cash from operating activities amounted to EUR 291 million, compared with EUR 212 million last year. This mainly reflects strong working capital management, the consolidation of Cooper Lighting, lower cash tax paid, and proceeds from the sale of real estate.

Digital Solutions

Sales were EUR 1,420 million, reflecting a nominal sales increase of 15.4% as a result of the consolidation of Cooper Lighting. Comparable sales declined by 18.9% and reflects a significant decline in demand across all regions as a result of COVID-19 measures taken. The most severely impacted markets were North America, India, France and Southeast Asia.
LED-based sales accounted for 91% of total sales in Digital Solutions, including Cooper Lighting. Income from operations amounted to EUR 23 million. EBITA of EUR 77 million included EUR 40 million of restructuring, acquisition-related charges, and other incidental costs. Adjusted EBITA amounted to 118 million, resulting in an improvement in the Adjusted EBITA margin of 120 bps to 8.3% which was driven by an increase in gross margin and indirect cost savings.

Digital Products

Sales were EUR 1,002 million, a decrease of 10.2% on a nominal basis and a decline of 17.9% on a comparable basis. LED-based sales accounted for 98% of total sales in Digital Products. Overall demand was impacted by the COVID-19 pandemic. Online sales in the consumer channel showed a solid performance. Sell-out rates for connected home lighting remained strong.

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".

Income from operations amounted to EUR 77 million. EBITA of EUR 81 million included EUR 10 million of restructuring and other incidental costs. The Adjusted EBITA margin improved by 90 basis points to 9.1%, mainly driven by positive mix impact, reduced price erosion and an improved cost structure in connected home lighting.

Conventional Products

Sales amounted to EUR 468 million, a decline of 21.4% on a nominal and comparable basis, which is estimated to be lower than the market decline, resulting in continued market share gains. Despite the impact of the pandemic, Conventional Products showed a solid performance partly as a result of strong demand for UV-C and horticulture lighting. Income from operations reduced to EUR 84 million due to the decline in sales, partly offset by proactive rationalization of the manufacturing footprint and lower indirect costs. EBITA amounted to EUR 84 million compared with EUR 111 million in the first half of 2019. This includes EUR 1 million positive impact of restructuring costs and other incidental costs. The Adjusted EBITA margin remained solid at 17.6%. Adjusted EBITA amounted to EUR 82 million.

Other

Reported EBITA amounted to EUR -53 million. This represents amounts not allocated to the operating segments and includes certain costs related to group enabling functions as well as central R&D activities to drive innovation. Adjusted EBITA amounted to EUR -46 million, compared with EUR -51 million in the same period last year. Restructuring and other incidental costs were EUR 6 million.

Outlook

Considering the persistent uncertainty about the future course of the pandemic, and the length and depth of the impact on the global economy, Signify still doesn't provide financial guidance at this point in time. However, Signify is confident in the underlying resilience of its businesses and operating model, and that its liquidity needs are well covered by the financial framework it has in place. In line with the company's policy to prioritize future deleveraging, Signify confirms its intention to utilize up to EUR 350 million to reduce gross debt in 2020.

I Condensed consolidated financial statements

I.I Condensed consolidated statement of income

In millions of EUR unless otherwise stated

	Note	Second quarter		January to June	
		2019	2020	2019	2020
Sales	1	1,477	1,469	2,955	2,896
Cost of sales		(926)	(901)	(1,852)	(1,795)
Gross margin		**551**	**568**	**1,103**	**1,101**
Selling, general and administrative expenses		(404)	(416)	(813)	(838)
Research and development expenses		(68)	(67)	(139)	(136)
Impairment of goodwill	5	—	—	—	—
Other business income		1	4	3	6
Other business expenses		(0)	(1)	(4)	(3)
Income from operations		**80**	**87**	**149**	**130**
Financial income		3	4	8	9
Financial expenses		(14)	(20)	(29)	(35)
Results relating to investments in associates		1	(0)	1	(0)
Income before taxes		**69**	**71**	**130**	**104**
Income tax expense	4	(19)	10	(35)	4
Net income		**50**	**81**	**95**	**108**
Attribution of net income for the period:					
Net income (loss) attributable to shareholders of Signify N.V.		52	79	96	109
Net income (loss) attributable to non-controlling interests		(2)	2	(2)	(1)
Earnings per ordinary share attributable to shareholders					
Weighted average number of ordinary shares outstanding used for calculation (in thousands):					
Basic		126,116	126,715	126,127	126,646
Diluted		127,403	127,814	127,226	128,008
Net income attributable to shareholders per ordinary share in EUR:					
Basic		0.41	0.62	0.76	0.86
Diluted		0.41	0.62	0.76	0.85

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

I.2 Condensed consolidated statement of comprehensive income

In millions of EUR

	Second quarter		January to June	
	2019	2020	2019	2020
Net income (loss)	**50**	**81**	**95**	**108**
Pensions and other post-employment plans:				
Remeasurements	–	(0)	(2)	0
Income tax effect on remeasurements	–	–	–	–
Total of items that will not be reclassified to profit or loss	**–**	**(0)**	**(2)**	**0**
Currency translation differences:				
Net current period change, before tax	(27)	(81)	17	(113)
Income tax effect	–	–	(1)	–
Net investment hedge				
Net current period change, before tax	–	6	–	6
Income tax effect	–	0	–	0
Cash flow hedges:				
Net current period change, before tax	(12)	(9)	5	5
Income tax effect	3	2	(0)	(1)
Total of items that are or may be reclassified to profit or loss	**(36)**	**(82)**	**21**	**(102)**
Other comprehensive income (loss)	**(36)**	**(82)**	**18**	**(102)**
Total comprehensive income (loss)	**14**	**(1)**	**113**	**6**
Total comprehensive income (loss) attributable to:				
Shareholders of Signify N.V.	16	(1)	114	8
Non-controlling interests	(2)	0	(1)	(3)

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

I.3 Condensed consolidated statement of financial position

In millions of EUR

	Note	December 31, 2019	June 30, 2020
Non-current assets			
Property, plant and equipment	1	644	769
Goodwill	1, 5	1,943	2,396
Intangible assets, other than goodwill	1, 5	443	881
Investments in associates		14	12
Financial assets	10	49	50
Deferred tax assets	4	384	468
Other assets		64	66
Total non-current assets		**3,541**	**4,641**
Current assets			
Inventories		874	1,032
Financial assets	10	–	–
Other assets		161	224
Derivative financial assets	10	16	16
Income tax receivable	4	48	59
Trade and other receivables		1,223	1,096
Cash and cash equivalents	10	847	1,026
Assets classified as held for sale		4	0
Total current assets		**3,174**	**3,453**
Total assets		**6,715**	**8,094**
Equity			
Shareholders’ equity	6	2,181	2,201
Non-controlling interests		142	141
Total equity		**2,324**	**2,341**
Non-current liabilities			
Debt	7	1,369	2,619
Post-employment benefits		437	423
Provisions	8	216	244
Deferred tax liabilities		28	24
Income tax payable		52	110
Other liabilities		135	134
Total non-current liabilities		**2,236**	**3,553**
Current liabilities			
Debt, including bank overdrafts	7	96	113
Derivative financial liabilities	10	20	34
Income tax payable		22	30
Trade and other payables		1,684	1,659
Provisions	8	149	141
Other liabilities		183	223
Liabilities from assets classified as held for sale		2	0
Total current liabilities		**2,155**	**2,200**
Total liabilities and total equity		**6,715**	**8,094**

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

1.4 Condensed consolidated statement of cash flows

In millions of EUR

	Note	Second quarter		January to June	
		2019 [1]	2020	2019 [1]	2020
Cash flows from operating activities					
Net income (loss)		50	81	95	108
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		126	120	258	254
• Depreciation, amortization and impairment of non-financial assets		67	86	137	164
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates		–	–	(0)	–
• Net gain on sale of assets		(1)	(1)	(1)	(1)
• Net interest expense on debt, borrowings and other liabilities		5	7	8	14
• Income tax expense	4	19	(10)	35	(4)
• Additions to (releases of) provisions	8	23	18	58	47
• Additions to (releases of) post-employment benefits		6	5	12	11
• Other items		7	15	8	23
Decrease (increase) in working capital:		56	22	27	74
• Decrease (increase) in trade and other receivables		22	85	43	305
• Decrease (increase) in inventories		(60)	(48)	(113)	(57)
• Increase (decrease) in trade and other payables		102	(17)	92	(202)
• Increase (decrease) in other current assets and liabilities		(8)	2	4	28
Increase (decrease) in other non-current assets and liabilities		(7)	(1)	(8)	5
Utilizations of provisions	8	(43)	(39)	(92)	(82)
Utilizations of post-employment benefits		(9)	(8)	(18)	(17)
Net interest and financing costs paid		(6)	(13)	(10)	(23)
Income taxes paid		(20)	(0)	(39)	(28)
Net cash provided by (used for) operating activities		**147**	**163**	**212**	**291**
Cash flows from investing activities					
Net capital expenditures:		(27)	(5)	(37)	(21)
• Additions of intangible assets	5	(12)	(8)	(16)	(13)
• Capital expenditures on property, plant and equipment		(16)	(16)	(23)	(28)
• Proceeds from disposal of property, plant and equipment		1	19	2	20
Net proceeds from (cash used for) derivatives and other financial assets		(3)	(4)	2	7
Purchases of businesses, net of cash acquired		(20)	(5)	(20)	(1,275)
Proceeds from sale of businesses, net of cash disposed of		5	2	5	2
Net cash provided by (used for) investing activities		**(45)**	**(11)**	**(50)**	**(1,288)**
Cash flows from financing activities					
Dividend paid		(164)	–	(164)	–
Proceeds from issuance of debt		1	1,280	1	3,735
Repayment of debt		(27)	(1,311)	(55)	(2,529)
Purchase of treasury shares		(6)	–	(6)	(6)
Net cash provided by (used for) financing activities		**(197)**	**(31)**	**(224)**	**1,201**
Net cash flows		**(94)**	**121**	**(62)**	**205**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts		(5)	(24)	9	(29)
Cash and cash equivalents and bank overdrafts at the beginning of the period[2]		712	919	664	840
Cash and cash equivalents and bank overdrafts at the end of the period[3]		**612**	**1,016**	**612**	**1,016**
Non-cash investing and financing activities:					
Acquisition of fixed asset by means of leases		**10**	**8**	**13**	**17**

1 Certain reclassifications have been made to prior year figures to conform with current year presentation. Refer to our Annual Report 2019 for further details of the reclassifications. These reclassifications did not impact net cash flows, or total cash flows from operating, investing and financing activities.

2 For Q2 2020 and Q2 2019, included bank overdrafts of EUR 5 million and EUR 20 million, respectively. For the first half of 2020 and 2019, included bank overdrafts of EUR 7 million and EUR 12 million, respectively.

3 Included bank overdrafts of EUR 10 million and EUR 9 million as at June 30, 2020 and 2019, respectively.

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

I.5 Condensed consolidated statements of changes in equity

In millions of EUR

	Share capital	Share premium	Retained earnings	Currency translation differences	Cash flow hedges	Treasury shares	Total share-holders' equity	Non-controlling interests	Equity
Balance as at January 1, 2019	**1**	**2,179**	**(37)**	**(29)**	**(9)**	**(65)**	**2,041**	**78**	**2,119**
Adoption of IFRS 16 (net of tax)	–	–	(12)	–	–	–	(12)	(0)	(12)
Restated balance as at January 1, 2019	**1**	**2,179**	**(48)**	**(29)**	**(9)**	**(65)**	**2,030**	**78**	**2,108**
Net Income	–	–	96	–	–	–	96	(2)	95
Other comprehensive income (loss)	–	–	(2)	15	4	–	18	1	18
Total comprehensive income (loss)	**–**	**–**	**94**	**15**	**4**	**–**	**114**	**(1)**	**113**
Dividend distributed	–	–	(164)	–	–	–	(164)	–	(164)
Purchase of treasury shares	–	–	–	–	–	(6)	(6)	–	(6)
Delivery of treasury shares	–	(2)	(1)	–	–	2	–	–	–
Share-based compensation plans	–	6	–	–	–	–	6	–	6
Balance as at June 30, 2019	**1**	**2,183**	**(119)**	**(13)**	**(4)**	**(69)**	**1,979**	**77**	**2,056**
Balance as at January 1, 2020	**1**	**2,195**	**53**	**7**	**(7)**	**(68)**	**2,181**	**142**	**2,324**
Net Income	–	–	109	–	–	–	109	(1)	108
Other comprehensive income (loss)	–	–	0	(105)	4	–	(101)	(2)	(102)
Total comprehensive income (loss)	**–**	**–**	**109**	**(105)**	**4**	**–**	**8**	**(3)**	**6**
Movement in non-controlling interests	–	–	–	–	–	–	–	1	1
Purchase of treasury shares	–	–	–	–	–	(6)	(6)	–	(6)
Delivery of treasury shares	–	(29)	(2)	–	–	31	–	–	–
Share-based compensation plans	–	16	–	–	–	–	16	–	16
Balance as at June 30, 2020	**1**	**2,182**	**160**	**(98)**	**(3)**	**(42)**	**2,201**	**141**	**2,341**

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

2 Notes to the consolidated interim financial statements

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

2.1 Reporting entity

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

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

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

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.

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

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, 2019. Several other amendments apply for the first time in 2020, but do not have an impact on the condensed consolidated interim financial statements of Signify.

Change in reporting segments

Operating segments are components of the company's business activities for which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Board of Management of the Company).

Effective Q2 2020, to further adapt to the industry transition and strengthen customer centricity, Signify changed the organizational structure, which included changing the previously four business groups (BG's) to three divisions.

- Division Digital Solutions (formerly BG Professional, including Cooper Lighting Solutions) offers luminaires, lighting systems and services for the Internet of Things to the customers in the professional segment;
- Division Digital Products (combines BG LED and BG Home). This division offers LED lamps, LED luminaires and connected products, including Hue and Wiz, and LED electronics to professional customers, OEM partners and consumers. By bringing together its entire consumer LED portfolio, Signify can better manage this lighting category for its channel partners; and
- Division Conventional Products (formerly BG Lamps) continues to focus on conventional lamps and electronics for professional customers, OEM partners and consumers. It is organized separately to bring a clear distinction between conventional and digital offerings.

In line with this change, effective Q2 2020, Signify's operating segments are Digital Solutions, Digital Products, and Conventional Products. The segments are organized based on the nature of the products and services. 'Other' represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions.

For impairment testing, goodwill is allocated to cash-generating units, which represent the lowest level at which the goodwill is monitored internally for management purposes. Previously, the cash-generating units for goodwill testing were the four Business Groups. As a result of the organizational changes, the cash-generating units for goodwill testing have also been updated to correspond to the new operating segments. The goodwill of BG LED and BG Home were combined into the goodwill of the new division Digital Products.

Impact of the COVID-19 pandemic

The COVID-19 pandemic has created an unprecedented situation globally. From the outset, Signify has taken considerable action focused on the health and safety of its employees, on customer engagement and supply chain continuity and on free cash flow generation and operating expenses.

Signify continues to closely monitor the development of COVID-19 and to analyze risks for its financial results, position and cash flows and implementing mitigating actions promptly.

Given the high level of global uncertainty and the very limited visibility on how this crisis might unfold, Signify has decided to suspend its financial outlook for 2020 as announced on January 31, 2020.

Further information and considerations with regard to areas of significant judgments and estimates have been included below.

Liquidity and risk management

At a very early stage of the COVID-19 outbreak, Signify has identified a broad range of mitigating actions to preserve liquidity. These measures include, among others, the deployment of initiatives worldwide to flexibly decrease labor cost in Q2, savings in selling expenses, travel costs and procurement costs. Next to this, the company has also implemented a range of measures to safeguard cash flow, including rigorous working capital management, the curtailment of uncommitted and non-essential capital expenditure, and the withdrawal of the 2019 dividend proposal.

Goodwill impairment

The negative impact of COVID-19 on the global economy, resulted in the Company performing a goodwill impairment test in the second quarter of the year.

The key assumptions of the goodwill impairment test include sales growth rates, EBITA and the rates used for discounting the projected cash flows. All key assumptions were updated to reflect management's current best estimates.

The goodwill impairment test did not result in an impairment loss being recognized. For further details refer to note 5 Intangible assets.

Inventories

The Company has not identified a material change to the write-down of inventories to net realizable value, compared with the six-month period that ended June 30, 2019.

Trade receivables

The Company's expected credit loss allowance as of June 30, 2020 has not increased materially when compared to the allowance as of December 31, 2019. Furthermore, the allowance for individually impaired receivables has not increased materially compared to the allowance as of December 31, 2019.

Pensions

COVID-19 impacted interest rates and investment performance. The Company performed an analysis to quantify the impact of these changes on the valuation of the net defined benefit liability. The quantified impact did not result in a remeasurement of the net defined benefit liability.

Estimates

The preparation of the condensed consolidated interim financial statements in these challenging circumstances 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 impact of the COVID-19 pandemic, 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, 2019.

2.3 Notes

1 Information by segment and main country

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

	Second Quarter						January to June					
	Digital Solutions	Digital Products	Conven-tional Products	Other[4]	Inter-segment elimination	Signify	Digital Solutions	Digital Products	Conven-tional Products	Other[4]	Inter-segment elimination	Signify
2020												
Sales to external customers	781	473	211	4		1,469	1,420	1,002	468	6		2,896
Sales including intersegment	781	515	212	4	(44)	1,469	1,421	1,084	471	6	(87)	2,896
Depreciation and amortization[1]	(22)	(7)	(8)	(17)		(54)	(37)	(14)	(18)	(35)		(105)
EBITA[2]	**59**	**43**	**45**	**(28)**		**119**	**77**	**81**	**84**	**(53)**		**189**
EBITA as a % of sales	7.6%	9.1%	21.2%			8.1%	5.4%	8.1%	17.9%			6.5%
Amortization[3]						(32)						(59)
Income from operations	29	41	45	(28)		87	23	77	84	(53)		130
Financial income and expenses						(16)						(26)
Results from investments in associates						(0)						(0)
Income before taxes						**71**						**104**
2019												
Sales to external customers	632	552	286	7		1,477	1,231	1,116	595	14		2,955
Sales including intersegment	632	592	288	8	(43)	1,477	1,233	1,192	598	14	(81)	2,955
Depreciation and amortization[1]	(13)	(7)	(7)	(16)		(43)	(25)	(15)	(15)	(33)		(89)
EBITA[2]	**42**	**39**	**50**	**(27)**		**104**	**66**	**83**	**111**	**(62)**		**198**
EBITA as a % of sales	6.7%	7.0%	17.5%			7.1%	5.3%	7.5%	18.6%			6.7%
Amortization[3]						(24)						(49)
Income from operations	20	37	50	(27)		80	21	80	111	(63)		149
Financial income and expenses						(12)						(21)
Results from investments in associates						1						1
Income before taxes						**69**						**130**

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 Amortization and impairments of acquisition related intangible assets and goodwill
4 Considering the nature of Other, EBITA as a % of sales for Other is not meaningful

Sales between the segments mainly relate to the supply of goods. The pricing of such transactions is determined on an 'arm's length basis'. Sales and tangible and intangible assets are reported based on the country of origin as follows:

	Sales		Tangible and intangible assets[1]	
	January to June 2019	January to June 2020	December 31, 2019	June 30, 2020
Netherlands	240	228	195	494
United States	653	923[2]	1,799	2,531
China	245	258[3]	308	295
Germany	195	179	16	15
France	143	104	17	16
India	197	91	22	32
Canada	94	90[2]	39	49
Other countries	1,189	1,024	635	613
Total countries	**2,955**	**2,896**	**3,030**	**4,046**

1 Includes goodwill
2 Includes Cooper Lighting Solutions
3 Includes Klite

2 Acquisition of Cooper Lighting Solutions

On March 2, 2020, the Company completed the acquisition of 100% interest in Cooper Lighting Solutions for a total consideration of EUR 1,260 million. The initial consideration was paid in cash and closing settlement procedures are expected to be finalized during 2020. The transaction price does not include any contingent and/or deferred considerations. The overall cash position of Cooper Lighting Solutions on the transaction date was EUR 2 million.

Cooper Lighting, headquartered in Peachtree City, GA, United States, is a leading provider of professional lighting, lighting controls, and connected lighting. The business offers a large breadth of products and applications, both in the indoor and outdoor segments, sold under renowned brands in North America including Corelite, Halo, McGraw-Edison and Metalux. The company sells its lighting portfolio through a strong agent network and has direct relationships with retailers, distributors and other end-user customers.

Acquisition-related costs that were recognized in General and administrative expenses amounted to EUR 13 million incurred in 2019 and in 2020. As of March 2, 2020, Cooper Lighting was fully consolidated as part of division Digital Solutions.

The condensed balance sheet of Cooper Lighting at the acquisition date was as follows:

	At acquisition date
Goodwill	481
Other Intangible assets	509
Property, plant and equipment	203
Trade and other receivables	215
Inventories	128
Other assets acquired	28
Cash	2
Trade and other payables	(203)
Other liabilities assumed	(103)
Net deferred tax assets	1
Net assets acquired	**1,260**
Financed by loans	**1,260**

The other intangible assets were reported as follows:

	At acquisition date
Customer relationships	335
Brand names	103
Technology based	69
Software	1
Total other intangible assets	**509**

The fair value of assets and liabilities at the acquisition is provisional due to the timing of the acquisition in relation to Signify's interim reporting. Receivables and other current assets are assumed to be valued against their fair value. Goodwill recognized for the amount of EUR 481 million is primarily related to the synergies expected to be achieved from integrating Cooper Lighting within division Digital Solutions. The goodwill recognized is expected to be deductible for tax purposes.

From the acquisition date, Cooper Lighting’s contribution to the sales and net income of the Company was EUR 433 million and EUR 17 million accordingly. If the acquisition had taken place on January 1, 2020, sales and net income for the Company would have been EUR 3,126 million and EUR 118 million respectively for first half year, ended June 30, 2020.

3 Disaggregated revenue information

Information on sales per segment is disclosed in note 1, Information by segment and main country. For the six-month period ended June 30, 2020, sales consisted primarily (97%) of sales of goods to customers (January to June 2019: 97%).

Sales by market:

	Second quarter		January to June	
	2019	**2020**	**2019**	**2020**
Europe	500	406	1,033	908
Americas	433	615	862	1,099
Rest of the world	458	321	890	646
Global businesses	86	126	170	243
Total	**1,477**	**1,469**	**2,955**	**2,896**

Americas include Cooper Lighting and Global businesses include Klite.

4 Income taxes

The income tax expense in the first six months of 2020 decreased by EUR 39 million compared to the corresponding period of the previous year, mainly as a

result of lower income and one-time non-cash tax benefits from changes in the organizational structure.
The effective tax rate for the six-month period ended June 30, 2020, was (3.6%) compared to 27.1% in 2019.

5 Intangible assets

	Goodwill	Intangible assets, other than goodwill	Total
Balance as at January 1, 2020			
Cost	2,651	2,141	4,791
Accumulated depreciation / impairment	(708)	(1,697)	(2,405)
Book value	**1,943**	**443**	**2,386**
Change in book value:			
Additions	–	13	13
Amortization	–	(69)	(69)
Acquisitions	481	510	991
Impairment	–	–	–
Translation differences and other movements	(28)	(16)	(44)
Total changes	**453**	**437**	**891**
Balance as at June 30, 2020			
Cost	3,100	2,635	5,735
Accumulated depreciation / impairment	(705)	(1,755)	(2,459)
Book value	**2,396**	**881**	**3,276**

Due to a change in Signify's organizational structure, the cash-generating units for goodwill impairment testing have been updated to be based on the new operating segments. Refer to 2.2 Basis of preparation for further details.

The goodwill allocated to each of the cash-generating units as of June 30, 2020, is presented as follows:

Goodwill allocated to the cash-generating unit in mEUR	December 31, 2019	June 30, 2020
Division Digital Solutions[1]	1,573	2,034
Division Digital Products	307	305
Division Conventional Products	62	57
Book value	**1,943**	**2,396**

1 Includes Cooper Lighting Solutions.

Goodwill allocated to the cash-generating unit Digital Solutions is considered to be significant in comparison to the total book value of goodwill of Signify at June 30, 2020.

The basis of the recoverable amount used of the cash-generating units is the value in use. Key assumptions used in the impairment tests for the units were sales growth rates, EBITA and the rates used for discounting the projected cash flows. These cash flow projections were determined using management's internal forecasts that cover an initial three-year period till 2022 that matches the period used for our strategic process. Projections were extrapolated with declining growth rates for a period of five years, after which a terminal value was calculated. The sales growth rates and EBITA used to estimate cash flows are based on past performance, external market growth assumptions (updated for COVID-19) and industry long-term growth averages.

For Digital Solutions, EBITA is expected to increase over the initial forecast period as a result of volume growth and cost efficiencies. Cash flow projections for 2020 were based on the key assumptions included in the table below:

Key assumptions in %

	Compound sales growth rate[1]			
	Initial forecast period[2]	Extra polation period	Used to calculate terminal value	Pre-tax discount rates
Digital Solutions half-year 2020	(0.1)	2.4	0.3	10.7

1 Compound sales growth rate is the annualized steady growth rate over the forecast period.
2 The CAGR% for the initial forecast period is presented as if Cooper would have been part of Signify in 2019 for comparability purposes.

The results of the impairment test of Digital Solutions have indicated a headroom of EUR 524 million. The recoverable amount would equal the carrying amount if the discount rate increased by 150 bps or if the forecasted cash flows declined by 12.3%.

6 Equity

Share repurchases

In February 2020, the Company purchased shares to cover obligations arising from its share-based compensation plans. The total number of shares repurchased was 183,418 for a total consideration of EUR 6 million.

Treasury shares

As of June 30, 2020, the total number of treasury shares amounted to 1,628,312 which were purchased at an average price of EUR 26.05 per share.

7 Debt

	December 31, 2019	June 30, 2020
Facility (EUR)	740	737
Facility (USD)	446	442
Eurobonds		1,260
Lease liabilities	252	260
Other Debt	20	23
Subtotal	**1,458**	**2,722**
Bank overdrafts	7	10
Gross debt	1,465	2,732
Cash and cash equivalents	(847)	(1,026)
Net debt (cash)	**618**	**1,706**
Total equity	**2,324**	**2,341**
Net debt and total equity	2,942	4,047
Net debt divided by net debt and total equity (in %)	21%	42%
Total equity divided by net debt and total equity (in %)	79%	58%

New term loan structure and a revolving credit facility

In January 2020, Signify refinanced the term loans of EUR 740 million and USD 500 million maturing in May 2021, with a new term loan structure consisting of EUR 400 million and USD 275 million maturing in January 2023 and EUR 340 million and USD 225 million maturing in January 2025. At the same time, the revolving credit facility (RCF) of EUR 500 million was refinanced for the same amount with a five-year maturity plus two one-year extension options.

The term loans and RCF agreement include a financial covenant providing that Signify maintains a net leverage ratio of no greater than 3.5x. The net leverage ratio may temporarily increase to 4.0x within 12 months of the closing of the Cooper Lighting acquisition or other material acquisitions. The covenant does not apply if Signify has at least one investment grade rating, which is currently the case, as the company has two investment grade ratings.

Eurobonds issuance

In May 2020, the Company issued EUR 675 million of fixed rate notes due in May 2024 with a coupon of 2.000% and EUR 600 million of fixed rate notes due in May 2027 with a coupon of 2.375%. The net proceeds of the notes were used to repay the bridge loan used to finance the acquisition of Cooper Lighting.

8 Provisions

Provisions are summarized as follows:

	Restructuring provisions	Environmental Provisions	Product warranty	Other provisions	Total
Balance as at January 1, 2020	**78**	**110**	**41**	**136**	**365**
Additions	15	7	29	18	70
Utilizations	(30)	(6)	(29)	(17)	(82)
Acquisitions	–	5	33	21	58
Releases	(8)	(1)	–	(10)	(18)
Changes in discount rate	–	1	–	(0)	0
Accretion	–	0	–	0	1
Translation differences and other movements	(0)	(2)	(2)	(5)	(10)
Balance as at June 30, 2020	**55**	**114**	**73**	**143**	**385**
Short-term	40	17	42	43	141
Long-term	15	98	31	100	244

9 Share-based compensation

Total share-based compensation costs for Signify for the six-month period ended June 30, 2020 were EUR 17 million (six-months period ended June 30, 2019: EUR 9 million). The fluctuations in the expenses is mainly explained by regular updates in the expected number of shares granted under non-market performance conditions. Of the EUR 9 million share-based compensation costs for the six-month period ended June 30, 2019, EUR 6 million was related to the Signify share-based compensation plans, and the remaining was related to the Royal

Philips Long-term Incentive Plan ("Royal Philips LTI Plan").

Signify share-based compensation plans

As mentioned in the annual report 2019 vesting of performance is conditional on the achievement of performance conditions over a period of three years. For the 2020 grant the performance condition measurement is based on four measures (with equal weighing of 25%): Relative Total Shareholder Return, Free Cash Flow, Return on Capital Employed and Sustainability. In addition, vesting is conditional to the grantee still being employed with Signify at the vesting date. In the six-month period ended June 30, 2020, Signify granted 1,058,996 performance shares, 392,327 conditional shares and 169,057 restricted shares to its employees and members of the Board of Management.

For the same period, a total of 960,713 vested shares (performance, conditional, and restricted) were delivered to Signify employees.

10 Financial assets and liabilities

Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the Consolidated financial statements for the year ended December 31, 2019.

Fair value hierarchy

The valuation techniques and inputs used to develop measurements for financial assets and liabilities are consistent with those disclosed in the Consolidated financial statements for the year ended December 31, 2019.

	Carried at	Gross amount recognised on the balance sheet	Amounts not offset on the balance sheet, but are subject to master netting arrangements	Net amount	Fair value hierarchy level	Estimated fair value
Balance as at December 31, 2019						
Non-current financial assets[1]	amortised cost	44		44		44
Unquoted equity shares	fair value (FVOCI)	3		3	3	3
Trade and other receivables[1]	amortised cost	1,223		1,223		1,223
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	16	(14)	2	2	16
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	2		2	3	2[2]
Cash and cash equivalents		847		847		847
Debt (excluding Eurobonds)[1]	amortised cost	(1,465)		(1,465)	2	(1,465)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(20)	14	(6)	2	(20)
Trade and other payables[1]	amortised cost	(1,663)		(1,663)		(1,663)
Contingent considerations	fair value (FVTPL)	(21)		(21)	3	(21)
Balance as at June 30, 2020						
Non-current financial assets[1]	amortised cost	37		37		37
Unquoted equity shares	fair value (FVOCI)	4		4	3	4
Trade and other receivables[1]	amortised cost	1,096		1,096		1,096
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	25	(16)	9	2	25
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	0		0	3	0
Cash and cash equivalents		1,026		1,026		1,026
Debt (Eurobonds)	amortised cost	(1,260)		(1,260)	1	(1,281)
Debt (excluding Eurobonds)[1]	amortised cost	(1,472)		(1,472)	2	(1,472)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(34)	16	(18)	2	(34)
Trade and other payables[1]	amortised cost	(1,643)		(1,643)		(1,643)
Contingent considerations	fair value (FVTPL)	(16)		(16)	3	(16)

1 In view of the nature, maturity or the magnitude of the amounts, Signify considers that the fair value of non-current financial assets, trade and other receivables, debt (excluding Eurobonds), trade and other payables are not materially different from their carrying value.

2 The fair value of 2019 Derivative financial assets not designated as hedging instruments has been adjusted from 10 to 2 for 2019.

11 Events after the balance sheet date

No subsequent events occurred that are material to Signify.

Appendix B - Reconciliation of non-IFRS financial measures

Change in reporting segments

As mentioned in the basis of preparation of this report Signify changed its segment reporting. The main change relates to combining BG LED and BG Home into division Digital Products. The comparatives 2019 in below tables have been updated to reflect the updated segment structure.

Sales growth composition per business in %

	Second quarter			
2020 vs 2019	**comparable growth**	**currency effects**	**consolidation and other changes**	**nominal growth**
Digital Solutions	(22.4)	(0.5)	46.5	23.6
Digital Products	(21.1)	(1.2)	8.1	(14.2)
Conven-tional Products	(25.2)	(1.1)	(0.2)	(26.5)
Total	**(22.5)**	**(0.8)**	**22.7**	**(0.6)**

	January to June			
2020 vs 2019	**comparable growth**	**currency effects**	**consolidation and other changes**	**nominal growth**
Digital Solutions	(18.9)	0.3	34.0	15.4
Digital Products	(17.9)	(0.1)	7.8	(10.2)
Conven-tional Products	(21.4)	0.1	(0.2)	(21.4)
Total	**(19.1)**	**0.1**	**17.0**	**(2.0)**

Sales growth composition per market in %

	Second quarter			
2020 vs 2019	**comparable growth**	**currency effects**	**consolidation and other changes**	**nominal growth**
Europe	(17.2)	(1.2)	(0.5)	(18.9)
Americas	(23.6)	0.0	65.9	42.3
Rest of the World	(28.5)	(1.7)	0.4	(29.9)
Global businesses	(15.1)	(1.2)	63.1	46.8
Total	**(22.5)**	**(0.8)**	**22.7**	**(0.6)**

Americas include Cooper Lighting and Global businesses include Klite.

	January to June			
2020 vs 2019	**comparable growth**	**currency effects**	**consolidation and other changes**	**nominal growth**
Europe	(11.5)	(0.4)	(0.3)	(12.1)
Americas	(20.1)	0.8	46.8	27.5
Rest of the World	(27.3)	(0.2)	0.1	(27.4)
Global businesses	(15.7)	(0.5)	58.8	42.6
Total	**(19.1)**	**0.1**	**17.0**	**(2.0)**

Americas include Cooper Lighting and Global businesses include Klite.

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

	Signify	Digital Solutions	Digital Products	Conventional Products	Other
Second quarter 2020					
Adjusted EBITA	133	75	44	37	(23)
Restructuring	(2)	(1)	(0)	1	(2)
Acquisition-related charges	(15)	(14)	(0)	–	–
Incidental items	4	(0)	(0)	7	(2)
EBITA	**119**	**59**	**43**	**45**	**(28)**
Amortization[1]	(32)	(30)	(2)	–	(0)
Income from operations (or EBIT)[2]	**87**	**29**	**41**	**45**	**(28)**
Second quarter 2019					
Adjusted EBITA	133	55	45	56	(24)
Restructuring	(14)	(7)	(1)	(3)	(3)
Acquisition-related charges	(1)	(1)	(0)	–	–
Incidental items	(13)	(6)	(5)	(3)	(0)
EBITA	**104**	**42**	**39**	**50**	**(27)**
Amortization[1]	(24)	(22)	(1)	(0)	(1)
Income from operations (or EBIT)[2]	**80**	**20**	**37**	**50**	**(27)**

1 Amortization and impairments of acquisition related intangible assets and goodwill.
2 For a reconciliation to income before taxes, refer to note 1, Information by segment and main country, of this Semi-annual Report.

	Signify	Digital Solutions	Digital Products	Conventional Products	Other
January to June 2020					
Adjusted EBITA	245	118	91	82	(46)
Restructuring	(15)	(5)	(4)	(2)	(4)
Acquisition-related charges	(33)	(31)	(2)	–	–
Incidental items	(7)	(4)	(4)	3	(2)
EBITA	**189**	**77**	**81**	**84**	**(53)**
Amortization[1]	(59)	(55)	(4)	(0)	(1)
Income from operations (or EBIT)[2]	**130**	**23**	**77**	**84**	**(53)**
January to June 2019					
Adjusted EBITA	247	87	92	119	(51)
Restructuring	(34)	(15)	(3)	(5)	(9)
Acquisition-related charges	(1)	(1)	–	–	–
Incidental items	(15)	(6)	(5)	(3)	(2)
EBITA	**198**	**66**	**83**	**111**	**(62)**
Amortization[1]	(49)	(45)	(3)	(0)	(1)
Income from operations (or EBIT)[2]	**149**	**21**	**80**	**111**	**(63)**

1 Amortization and impairments of acquisition related intangible assets and goodwill.
2 For a reconciliation to income before taxes, refer to note 1, Information by segment and main country, of this Semi-annual Report.

Income from operations to Adjusted EBITA in millions of EUR

	Reported	Restructuring	Acquisition related charges	Incidental items[2]	Adjusted
Second quarter 2020					
Sales	1,469	–	–	–	1,469
Cost of sales	(901)	(1)	7	(7)	(901)
Gross margin	**568**	**(1)**	**7**	**(7)**	**567**
Selling, general and administrative expenses	(416)	3	8	4	(401)
Research and development expenses	(67)	0	0	–	(67)
Indirect costs[1]	**(483)**	**3**	**8**	**4**	**(468)**
Impairment of goodwill	–	–	–	–	–
Other business income	4	–	–	(1)	2
Other business expenses	(1)	–	–	(0)	(1)
Income from operations	**87**	**2**	**15**	**(4)**	**100**
Amortization	(32)	–	–	–	(32)
Income from operations excluding amortization (EBITA)	**119**	**2**	**15**	**(4)**	**133**
Second quarter 2019					
Sales	1,477	–	–	–	1,477
Cost of sales	(926)	6	–	–	(920)
Gross margin	**551**	**6**	**–**	**–**	**557**
Selling, general and administrative expenses	(404)	7	1	14	(383)
Research and development expenses	(68)	1	–	–	(67)
Indirect costs	**(471)**	**8**	**1**	**14**	**(449)**
Impairment of goodwill	–	–	–	–	–
Other business income	1	–	–	(0)	0
Other business expenses	(0)	–	–	–	(0)
Income from operations	**80**	**14**	**1**	**13**	**108**
Amortization	(24)	–	–	–	(24)
Income from operations excluding amortization (EBITA)	**104**	**14**	**1**	**13**	**133**

1 Adj. indirect costs included a positive currency impact of EUR 4 million and changes in scope of EUR 108 million in Q2 20. Adjusting for the currency and changes in scope, indirect costs reduced by EUR 85 million on a comparable basis.

2 Incidental items are non-recurring by nature and relate to separation, company name change, transformation, environmental provision for inactive sites and discounting effect of long-term provisions.

	Reported	Restructuring	Acquisition related charges	Incidental items[2]	Adjusted
January to June 2020					
Sales	2,896	–	–	–	2,896
Cost of sales	(1,795)	3	13	(5)	(1,784)
Gross margin	**1,101**	**3**	**13**	**(5)**	**1,112**
Selling, general and administrative expenses	(838)	11	19	14	(794)
Research and development expenses	(136)	1	0	–	(134)
Indirect costs[1]	**(973)**	**12**	**19**	**14**	**(928)**
Impairment of goodwill	–	–	–	–	–
Other business income	6	–	–	(1)	4
Other business expenses	(3)	–	–	(0)	(3)
Income from operations	**130**	**15**	**33**	**7**	**186**
Amortization	(59)	–	–	–	(59)
Income from operations excluding amortization (EBITA)	**189**	**15**	**33**	**7**	**245**
January to June 2019					
Sales	2,955	–	–	–	2,955
Cost of sales	(1,852)	11	–	–	(1,841)
Gross margin	**1,103**	**11**	**–**	**–**	**1,114**
Selling, general and administrative expenses	(813)	19	1	15	(778)
Research and development expenses	(139)	4	–	–	(136)
Indirect costs	**(953)**	**23**	**1**	**15**	**(914)**
Impairment of goodwill	–	–	–	–	–
Other business income	3	–	–	(0)	3
Other business expenses	(4)	–	–	–	(4)
Income from operations	**149**	**34**	**1**	**15**	**199**
Amortization	(49)	–	–	–	(49)
Income from operations excluding amortization (EBITA)	**198**	**34**	**1**	**15**	**247**

[1] Adj. indirect costs included a negative currency impact of EUR 1 million and changes in scope of EUR 153 million in H1 20. Adjusting for the currency and changes in scope, indirect costs reduced by EUR 140 million on a comparable basis.

[2] Incidental items are non-recurring by nature and relate to separation, company name change, transformation, environmental provision for inactive sites and discounting effect of long-term provisions.

Composition of cash flows in millions of EUR

	Second quarter		January to June	
	2019	**2020**	**2019**	**2020**
Cash flows from operating activities	147	163	212	291
Cash flows from investing activities	(45)	(11)	(50)	(1,288)
Cash flows before financing activities	**103**	**151**	**162**	**(996)**
Cash flows from operating activities	147	163	212	291
Net capital expenditures:	(27)	(5)	(37)	(21)
• Additions of intangible assets	(12)	(8)	(16)	(13)
• Capital expenditures on property, plant and equipment	(16)	(16)	(23)	(28)
• Proceeds from disposal of property, plant and equipment	1	19	2	20
Free cash flows	**121**	**158**	**175**	**270**

Composition of free cash-flows per division in millions of EUR

	January to June	
	2019	**2020**
Digital Solutions	96	132
Digital Products	125	173
Conventional Products	102	91
Other*	(148)	(125)
Signify total	**175**	**270**

* Non-allocated free cash flow items (e.g. tax, interest).

Working capital to total assets in millions of EUR

	June 30, 2019[1]	December 31, 2019	June 30, 2020
Working capital	**503**	**388**	**452**
Eliminate liabilities comprised in WoCa:			
• Trade and other payables	1,627	1,684	1,659
• Derivative financial liabilities	13	20	34
• Other current liabilities	196	183	223
Include assets not comprised in WoCa:			
• Non-current assets	3,413	3,541	4,641
• Income tax receivable	37	48	59
• Current financial assets	3	0	–
• Cash and cash equivalents	621	847	1,026
• Assets classified as held for sale	7	4	0
Total assets	**6,420**	**6,715**	**8,094**

1 Prior year has been revised to align with the updated presentation of the Consolidated statement of financial position as disclosed in the 2019 Annual report.

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

Changes in scope
Consolidation effects related to acquisitions (mainly Cooper Lighting)

Comparable sales growth (CSG)
The period-on-period growth in sales excluding the effects of currency movements and changes in consolidation and other changes

EBIT
Income from operations

EBITA
Income from operations excluding amortization and impairment of acquisition related intangible assets and goodwill

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 the foreign currency financials of the previous period and the current period into euros at the same average exchange rates

Employees
Employees of Signify at period end expressed on a full-time equivalent (FTE) basis

Free cash flow
Net cash provided by operating activities minus net capital expenditures. Free cash flow includes interest paid and income taxes paid

Gross margin
Sales minus cost of sales

Incidental charges
Any item with an income statement impact (loss or gain) that is deemed to be both significant and not part of normal business activity. Other incidental items may extend over several quarters within the same financial year

Indirect costs
The sum of selling, general and administrative expenses and R&D expenses

Net capital expenditures
Additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment

Net debt
Short-term debt, long-term debt minus cash and cash equivalents

Net leverage ratio
The ratio of consolidated reported net debt to consolidated reported EBITDA for the purpose of calculating the financial covenant

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, trade and other receivables, other current assets, derivative financial assets minus the sum of trade and other payables, derivative financial liabilities and other current liabilities