Annual Report 2020

signify

Our purpose is to unlock the extraordinary potential of light for brighter lives and a better world

Signify is the world leader in lighting. We provide our customers with high-quality, energy-efficient lighting products, systems and services.

By turning light sources into data collection points, we can connect more devices, places and people through light, contributing to a safer, more productive and smarter world.

Our values

Our values provide our people with a common understanding of what matters to us and how we work

Customer first

“The support from Signify and the folks from GrowWise Center is phenomenal. We meet with them monthly, and the service of their Philips’ products has been exceptional.”
Jeff McKinnon, CFO and VP, GoodLeaf Community Farms and TruLeaf Sustainable Agriculture

Greater together

“Honeywell and Signify offered our clinics a complete solution for air, surface and object disinfection that allows us to clearly communicate to our clinicians, staff and patients how we are working to support wellbeing in our spaces.”
Tan Sri Dato’ Tan Boon Hock, Founder, OPTIMAX Eye Specialists Centre

Game changer

“We are proud that we are the first supermarket in Germany to provide both our shoppers and our employees an additional layer of protection. We have been working with Signify for many years in the field of lighting and have a common goal to provide our customers with the best possible shopping experience.”
Dr. Dirk-Uwe Clausen, Managing Director of EDEKA Clausen”

Passion for results

“With Interact Industry, we received a connected lighting system that does more than just provide light. It also gives us data about our site and allows us to make smarter decisions about our operations. In the end, Signify’s solution exceeded our expectations.”
Marcel Devereaux, Category Manager, Energy Projects Europe, NSG Group

Always act with integrity

“Do what is right, think before doing, ask if not sure. Value yourself and others; acting with integrity is who we are. We are Signify.”
Haiver Montenegro, Plant Manager

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European single electronic reporting format and PDF version

This document is the PDF/printed version of the 2020 Annual Report of Signify N.V. and has been prepared for ease of use. The 2020 Annual Report was made publicly available pursuant to section 5:25c of the Dutch Financial Supervision Act (Wet op het financieel toezicht) on February 23, 2021 and was filed with Netherlands Authority for the Financial Markets in European single electronic reporting format (the ESEF package) at the same time. The ESEF package is available on the company's website at https://www.signify.com/static/2020/signify-annual-report-2020.zip and includes a human readable XHTML version of the 2020 Annual Report. In case of discrepancies between this PDF version and the ESEF package, the latter prevails.

In 2020, Signify leveraged 129 years of leadership in lighting to create dynamic, innovative and human-centric projects. In homes, offices, shops, sports stadiums, cities, greenhouses and factories – as well as through the Signify Foundation – we're unlocking the extraordinary potential of light for brighter lives and a better world.

Forward-looking statements and risks & uncertainties
Please refer to chapter 20, Forward-looking statements and other information, of this Annual Report, for more information about forward looking statements, market and industry information, fair value information, IFRS basis of presentation, use of non-IFRS financial measures and statutory financial statements.

We are Signify

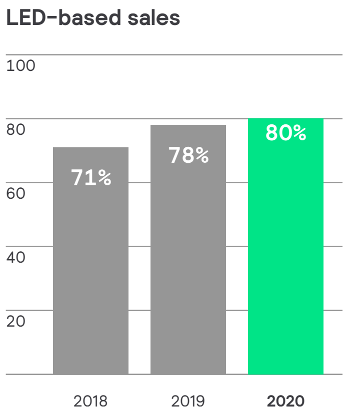
1 Performance highlights

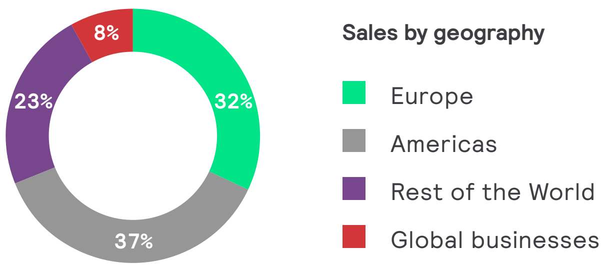
1.1 Financial performance

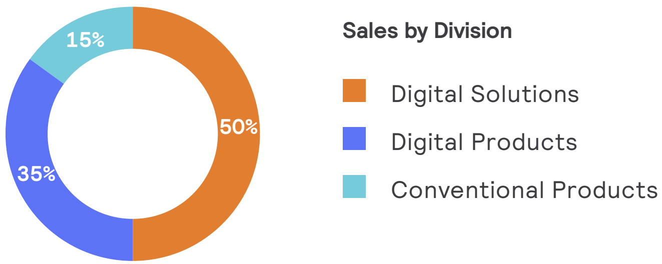
	2019	2020
Comparable sales growth	(4.6)%	(12.7)%
Nominal sales growth	(1.8)%	4.1%
Adjusted EBITA margin	10.4%	10.7%
Net income	267	335
Free cash flow	529	817
Net cash provided by operating activities	599	891

Divisions	Digital Solutions	Digital Products	Conventional Products
Sales	3,252	2,288	943
Comparable sales growth	(14.4)%	(8.3)%	(16.5)%
Nominal sales growth	22.8%	(5.1)%	(18.7)%
EBITA margin	7.1%	12.1%	15.8%
Adjusted EBITA margin	10.2%	12.9%	18.0%

This chapter 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. These measures are further discussed in chapter 4, Corporate performance, of this Annual Report. For a reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures, see chapter 18, Reconciliation of non-IFRS financial measures, of this Annual Report.





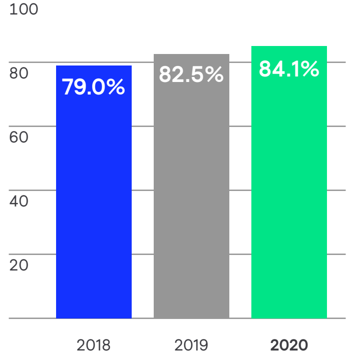


1.2 Sustainability performance

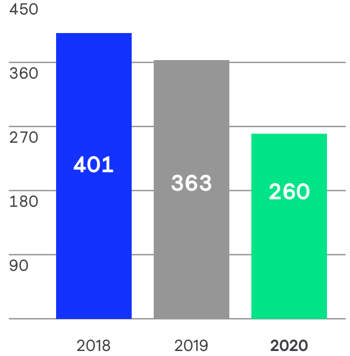
Brighter Lives highlights	2019	2020
Employees (full-time equivalent)	32,005	37,926
Employee Net Promoter Score	18	25
Women in leadership	17%	23%
Safety at work (TRC rate)	0.32	0.22
Supplier sustainability performance	99%	99%

Better World highlights	2019	2020
Sustainable revenues	82.5%	84.1%
Carbon footprint (gross, kilotonnes)	363	260
Carbon footprint (net, kilotonnes)	64	0
Renewable electricity	94%	100%
Zero waste to landfill factories	71%	100%

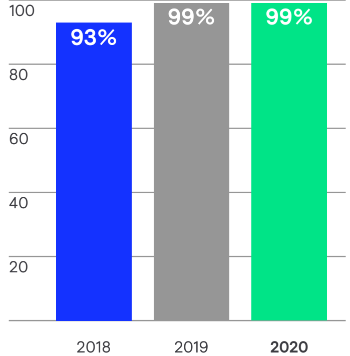
Sustainable revenues
% of total revenues



Operational carbon footprint (gross)
Kilotonnes CO_2 equivalent



Supplier sustainability performance
Performance rate



2 CEO message

2020 – Improving and building a sustainable future in a year of unprecedented challenges

“I am very proud that our teams have responded quickly and effectively to the challenging circumstances of this year. Our employee and customer Net Promoter Scores have reached historic highs while we further improved our financial performance. We achieved carbon neutrality and increased our leadership in connected, LED and conventional lighting while successfully integrating Cooper Lighting and Klite.” – Eric Rondolat, Signify CEO

2020 presented challenges the likes of which we’ve never experienced. As a company, we responded quickly to the conditions arising from the COVID-19 pandemic. From early in February, we were very agile and thorough in dealing with the challenges through global and local crisis response teams. I am proud that, thanks to the tremendous efforts of our crisis response teams and the worldwide disciplined execution of health and safety recommendations, we achieved our priority objective to protect our people.

In this extraordinary year, we also managed to further improve our profitability and free cash flow, even against the backdrop of a decline in demand. We took a range of impactful actions, including solid price management, rigorous working capital management, curtailment of uncommitted and nonessential capital expenditures, and a reduction of our overall gross debt position.

It is with a lot of pride that we announced that we achieved carbon neutrality across our entire operations in September, that we now use 100% renewable electricity and send zero waste to landfill. Our new Brighter Lives Better World 2025 program, launched this year, also reinforces that sustainability is at the heart of everything we do. It is our compass for driving growth opportunities that will create long-term value for our stakeholders and double our positive impact on the environment and society in the coming five years.

Our strategic focus

Our employees’ resilience in implementing our strategy helped us to strengthen our leadership position in connected, LED, and conventional lighting and to progress on our path to value creation.

- Comparable sales growth was (12.7)%, impacted by the COVID-19 pandemic
- Our LED-based sales represented 80% of our total sales by the end of the year
- We increased our total of connected light points to 77 million globally
- Our relentless focus on innovation was demonstrated by our expanded portfolio in consumer and professional lighting systems, UV-C disinfection lighting, solar hybrid LED solutions, agricultural and 3D-printed luminaires
- Our adjusted EBITA margin improved by 30bps to 10.7%
- Free cash flow amounted to EUR 817 million, representing 12.6% of sales.

In 2020, we implemented our 5 Frontiers strategy. It helps us address the challenges and seize the opportunities from the major global shifts we see. We aim to be even more customer centric, deliver differentiated offers, drive growth for sustainability, digitalize and transform for the future and be a great place to work.

Our acquisitions

Our acquisition of Cooper Lighting Solutions, completed in March 2020, strengthens our position in the attractive North American lighting market.Our focus is on building a winning common culture, deploying finance and HR processes, learning platforms, and creating a common IT backbone. The integration is ahead of plan and we've identified an additional USD 40 million of synergies, bringing the total to USD 100 million. Despite the shortfall in top line due to the pandemic, we have been delivering in absolute value the profit and cash as per our acquisition business plan.

In 2020, we also further strengthened our position in the private and branded label markets, stemming from the independent supply chain we secured in China by acquiring Klite in 2019. The integration between the teams has been extremely fast and a great solidarity was shown when our plants stayed closed in early Q1. Despite the slow start of the year due to the pandemic in China, synergies are already leading to improved cost competitiveness and working capital improvement.

Our financial performance

While our industry was severely impacted by the pandemic, we managed to strengthen our financial performance. Our gross margin increased due to rigorous price and cost management, resulting in our seventh consecutive year of Adjusted EBITA margin improvement. From the start of the crisis, we were disciplined in working capital management, allowing us to generate a record-high free cash flow of EUR 817 million.

As per our strategy, the contribution from our digital divisions increased substantially in 2020. In line with our governance principles, we decided to return contributions to employees who participated in the 2020 solidarity prgram and to propose an extraordinary dividend to our shareholders, who have supported us since the beginning of the crisis. At the same time, we confirmed a continued deleveraging commitment.

At the end of the year, we started further optimizing our costs in several ways to enhance our competitiveness in a rapidly transforming lighting industry. We are making our central organization leaner in order to reduce our indirect costs, which have increased as a percentage of sales due to the COVID-19 pandemic. At the same time, we will continue to innovate and develop our growth platforms to capture new business opportunities in line with our strategy.

Our commitment to innovation

In 2020, we invested 4.4% of our sales in R&D. We specifically increased our investments in UV-C, solar lighting, and connected home lighting.

We leveraged more than 35 years of expertise in UV-C lighting to address the growing global need for the disinfection of air, surfaces and objects. Our UV-C technology is proven to effectively neutralize microorganisms, such as bacteria, mold and viruses – including the virus that causes COVID-19 – in a matter of seconds.[1] We increased our UV-C light source production capacity by a factor of 8 this year, launched 12 families of UV-C-based products for professionals, and also started launching UV-C products for consumers. As such it's an important part of our commitment to health and safety.

The release of solar hybrid systems is increasing the number of places where solar lighting can be used, as it allows switching between solar power during the sunnier periods and power from the grid during the darker months. This will help increase the usage of clean electricity and reduce carbon footprints. This is an essential part of our commitment to clean energy.

Another groundbreaking innovation is helping to further enhance the home entertainment experience. The Philips Hue Play gradient lightstrip brings the surround lighting effect to the next level and helps TV viewers experience the thrill of a movie theater in their own living room. Meanwhile, WiZ further expanded smart home lighting accessibility as it launched more than 100 products that are easy to set-up with Bluetooth and consumers' existing WiFi networks.

The progress we've made in the past few years uniquely positions us to achieve technology-driven growth across multiple dimensions.

Our commitment to sustainability

In September, we reached a major milestone: becoming carbon neutral in all our operations across the world. This was ahead of our target and ahead of the aspirations set out in the Paris Agreement. This is a truly significant achievement for us. Following this milestone, I am very proud to announce that, at the end of 2020, we also outperformed on many of our ambitious commitments set out in our sustainability program.

However, the world is still facing demographic change, urbanization, climate change and resource scarcity. Now is the time, as a society, to be even more ambitious and accelerate our efforts to address these challenges.

As a company, we will go beyond carbon neutrality and double our positive impact on the environment and on society in the

[1] In laboratory testing, Signify's UV-C light sources reduced SARS-CoV-2 virus infectivity on a surface to below detectable levels in as few as 9 seconds (Storm et al., 2020, accessible here). In this study, an exposure to an UV-C irradiance of 0.849 mW/cm^2 for the duration of 9 seconds was applied, resulting in an UV-C dose of 7.64 mJ/cm^2. Our UV-C surface disinfection products (fitted with our UV-C light sources) will achieve the same level of virus infectivity reduction as long as the same UV-C dose is achieved on each area of surface that is irradiated.

“Our innovation-led strategy will continue to shape lighting industry standards and will accelerate the next technological leap toward greater connectivity“

coming five years, as we announced in our new Brighter Lives Better World 2025 program. This program is all about doubling: doubling the pace at which we will achieve the goals of the Paris Agreement; doubling our circular revenues; doubling our brighter lives revenues that benefit society; and doubling the percentage of women in leadership – all within the next five years.

For us, we’ve had sustainability at the heart of our purpose for more than a decade – since we actively drove the ban of incandescent lighting and led the shift to LED and connected lighting. And every year that purpose is coming more and more to life through what we propose to our customers and how we operate our company.

Our commitment to our customers
Customer satisfaction is at the center of our 5 Frontiers strategy and one of the main pillars of our Road to Excellence. 2020 was a successful year where we raised our Net Promoter Score from 32 in 2019 to 41. This is a benchmark achievement. Our efforts to digitalize and improve the customer experience won two awards (Best Measurement in CX and Digital Transformation) at the Annual European Customer Centricity Awards 2020.

We have focused on failure prevention by strengthening Advanced Quality Planning and implementing lessons learned from the performance of our products in the field. This will lead to improvements in performance and will increase customer satisfaction even more.

As part of our commitment to the new European Foundation for Quality Management (EFQM) model, we have been performing assessments in several parts of the company. This program shows us where we have to increase our organizational maturity to become the industry benchmark.

Our digitalization journey
This year, we launched a multiyear digital roadmap, with prioritized initiatives based on market trends and customer needs. One place we've focused our energy is the digitalization of customer interfaces. Some examples of this focus are our revamped Philips Hue website; the launch of LightFinder, a direct-to-consumer channel that makes it easier for consumers to find, choose, and buy the right lightbulb for their home; and improvements in MySignify, our B2B platform that helps our professional customers to navigate the entire journey from awareness to aftercare. We've also deployed clear initiatives throughout the organization to digitally reskill and upskill our employees, especially in data analytics, Artificial Intelligence, automation, e-commerce, and security.

Our commitment to being a great place to work
In 2020, our main priority was the health, safety and wellbeing of our employees and their families. We made an early decision on all possible protective measures to provide our employees with a safe working environment. We also ensured all our sites were prepared for social distancing. At the same time, we started to install UV-C disinfection upper air luminaires in some of our offices as part of our continued focus on providing safe working environments.

Also, during this extraordinary year, we continued our efforts to be a strong talent-building company. As part of being a great place to work we have launched our new internal careers website with both permanent as well as short-term assignments, and we launched a new digital global mentoring initiative ‘mentoring without borders’, providing all employees with the opportunity to mentor and be mentored virtually.

Our succession plans for leadership roles continue to be robust and have become more diverse with 35% of succession candidates being women. In 2020, over 80% of our leadership positions were again staffed internally, confirming the success of our efforts to build a strong internal succession pipeline.

We also stepped up our efforts in developing women talents through senior leadership sponsorship and mentoring initiatives.
We continued with our quarterly employee survey to measure employee engagement, which has proven especially important in a year where we have made efforts to ensure people and teams stayed connected.
Our Employee NPS showed another step change, from 20 in Q4 2019 to 29 in Q4 2020, with participation levels above 80% throughout the year.

Our Board of Management

This year, we strengthened our Board of Management with two new faces. First of all, Maria Letizia Mariani, who had already served as Chief Marketing Officer & Head of Strategy, and Division Leader for Conventional Products, officially joined the Board of Management in May. Later in the year, Francisco Javier van Engelen Sousa joined us as Chief Financial Officer and also as a member of the Board of Management.

René van Schooten, who joined then-Philips at the turn of the millennium and has been a member of the Board of Management since the IPO in May 2016, has stepped down from our Board at the end of the year. I would like to personally thank him for his knowledge and support in the past years.

Our thanks

On behalf of our Board of Management and our entire leadership team, I want to thank our employees, who showed tremendous resilience, solidarity, and flexibility throughout the year. As a company, we continued to transform our business while maintaining our focus on unlocking the extraordinary potential of light for brighter lives and a better world.

I also thank our customers for the trust they place in us and their loyalty, which continues to motivate us to do our best.

And finally, I thank our shareholders for their confidence in us and for supporting our strategy.

Our innovation-led strategy will continue to shape industry standards and will accelerate the next technological leap toward greater connectivity. And, by keeping sustainability at the heart of what we do, we're well-placed to strengthen our position as the world leader in lighting and achieve multi-dimensional growth.

Eric Rondolat
CEO Signify

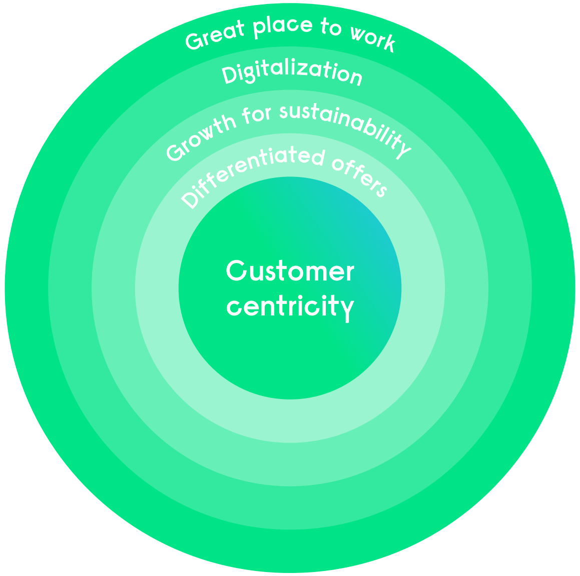
3 Creating value

3.1 Our strategic focus

Signify, headquartered in Eindhoven, the Netherlands, is the world market leader with recognized expertise in the development, manufacture and sale of innovative, energy-efficient lighting systems and services. We have pioneered many key breakthroughs in lighting over the past 129 years and have been a driving force behind several leading technological innovations. We employ around 38,000 people in 74 countries.

Over the past few years, Signify further strengthened its leadership position as the lighting industry transitioned from conventional to LED and to connected lighting. In 2020, Signify adapted its strategy and named it the 5 Frontiers strategy. It addresses the challenges and seizes upon the opportunities from major global shifts that are impacting the lighting market. Indeed, the world and our industry are changing fast with new competition, changing geopolitical relationships, and advances in digitalization.

Our new 5 Frontiers strategy reinforces our ambition to remain the industry leader and deals with the following equation: increasing our customers and people satisfaction, becoming more digital and developing a growth profile while positively impacting the environment and society.



Our 5 Frontiers	Description	Proof points
1. Build a customer centric organization	We are building a customer-focused organization, streamlining processes enabled by our new operating model.	• Customer NPS improved by 9 points to 41 • Implemented a new operating model focused on greater customer-centricity
2. Deliver differentiated lighting offers	We are developing tiered offerings with multiple distinctive brands to cater to different customer segments.	• B-Brand,and Private Labels sales increased by over 20% • 4.4% of sales invested in R&D
3. Drive growth for sustainability 	We are driving 5 new sustainable growth areas to help address the world's greatest challenges: (1) climate action, (2) building a more circular economy, (3) food availability, (4) safety & security, and (5) health & wellbeing. Key to driving these areas will be increasing connectivity and data analytics.	• Installed light points using our connected lighting products increased by 38% to 77 million connected light points • Growth Platforms revenue (Agriculture, Solar, UV-C, 3D Printing) increased 15% in 2020
4. Digitalize and transform for the future	We are creating a digital front and back-end, embedding artificial intelligence (AI) in products and systems and boosting our digital competencies.	• Direct online sales (MyLighting and MeetHue) at 15% of revenues
5. Be a great place to work	We are further investing in our people, creating a diverse and inclusive workplace, and reskill to boost our digital and commercial competencies.	• Employee NPS improved by 7 points to 25 • We will double our % of women in leadership to 34% in 2025

RIAT indoor farm – Ivanovo, Russia

Growing tasty tomatoes and crispy cucumbers without daylight

Pioneering the next step in indoor crop cultivation, we teamed up with RIAT, an innovative farming enterprise in Russia, to grow tomatoes, cucumbers and 19 types of green crops in a vertical farm without daylight.

Customer challenge
Covering an area of 4,500 m^2 – which is more than half the size of a standard soccer pitch – RIAT already had a large enough growing facility. But the facility didn't have any windows. Therefore, a high-quality lighting system able to service and adapt to the intensive lighting needs of different crops was needed.

Solution
Signify fulfilled this need by providing a combination of Philips GreenPower LED toplights and Philips GreenPower LED interlights. With this mix, the light comes in both from the top and right into the canopy where the light for photosynthesis is needed most.

> "As our building had no windows, we needed a high-quality lighting system to fulfil the intensive lighting requirements of tomatoes and cucumbers. Signify provided its Philips GreenPower LED grow lighting, helping us to achieve a yield performance comparable to traditional greenhouse operations." Vladimir Bukharev, Director at RIAT

RIAT can also tailor the light recipes to the specific needs of the different crops – from a variety of lettuces to herbs, cucumbers, radishes and arugula.

This adaptability has helped RIAT to grow high-quality crops and achieve a yield performance that's comparable to traditional greenhouse operations.

Moreover, growing indoors means RIAT can use a central location, keeping distribution lines short, ensuring its products make it to the store within an hour of harvesting and providing shoppers with some of the freshest produce available. This allows RIAT to sell 99% of what it grows.

Philips GreenPower LEDs
Philips GreenPower LEDs are an important tool in improving a crop's growth predictability, quality and yield, year round, helping facilities to get more and higher quality produce per m^2 than ever before. The light recipes can be adjusted to service the lighting needs of different crops. As such, horticulture LEDs can be very useful in improving food availability around the globe, which is a necessity as we need to produce 70% more food in the next 15 years just to feed our growing population.

Connecting half a million streetlights in the Empire State

A statewide program to install connected LED luminaires and Signify's Interact City lighting system is helping municipalities in New York cut energy usage, lower emissions and create a platform for smart city deployments.

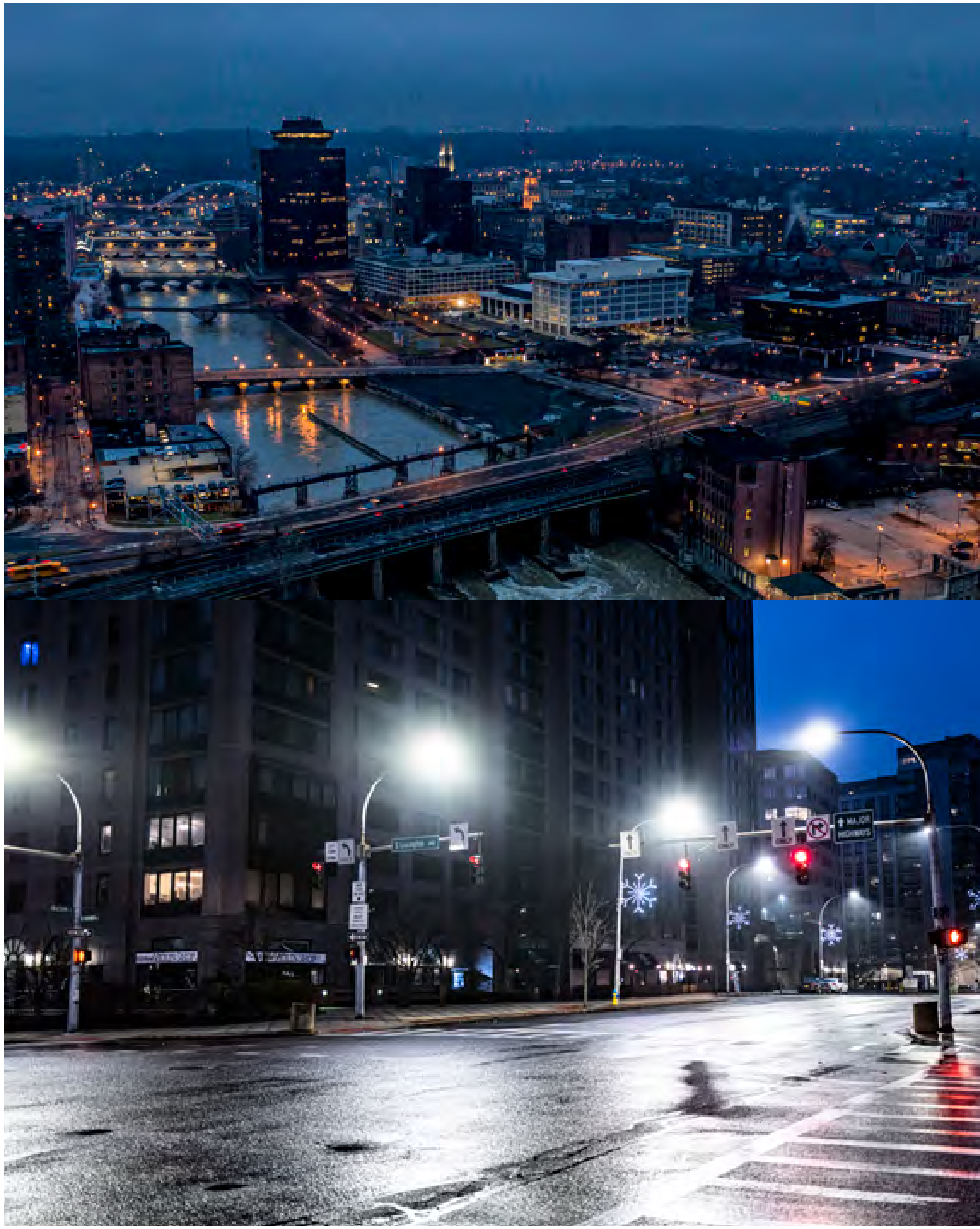
Customer challenge
For its Smart Street Lighting program, the New York Power Authority (NYPA) was seeking to help New York municipalities convert their streetlights to connected LEDs. In addition to creating a platform for smart city deployments across the state, this conversion cuts energy usage and lowers emissions. The program aims to replace at least half of New York's more than one million streetlights over the next five years.

Solution
More than 66,000 LED streetlights, managed by Signify's Interact City software, have been installed to date. This means savings of more than 68 million kWh and USD 11.5 million in energy costs per year. But municipalities don't just save money by adopting connected LED lighting. They also expand the value of their streetlight systems.

> **"With Interact City, we can now remotely monitor the system via a central dashboard, identifying required maintenance very quickly. Should any glitch occur, the system proactively prompts managers even before our residents have noticed, and that's a big plus."**
> **Abebe Woldemariam, Street lighting program coordinator, City of Rochester**

Interact City can share data collected via sensors with the IT systems of firefighters, emergency medical services and other first responders, enabling them to react more quickly when incidents occur. In addition, some of the streets will be equipped with BrightSites smart poles, which can be equipped with cellular equipment and WiFi transmitters, so citizens can enjoy the latest technology in connectivity.
Further, the project offers significant social benefits. As Kathy Sheehan, Mayor of Albany, explains, "As we looked at the technology and as we saw what was possible, it really became a social justice and equity issue, because it allows us to do a number of things that are really helpful to our communities."
With commitments from more than 30 cities to replace 250,000 streetlights, the program is almost halfway to its goal of converting 500,000 streetlights across the state by 2025.

Interact City
The Interact City connected lighting system and management software provides customers with a robust infrastructure to enhance city services, improve public safety, beautify public spaces, engage with citizens, and encourage civic pride. Collecting and analyzing data also reduces energy usage and cost, and increases efficiency by enabling better maintenance planning and service delivery.



New York Power Authority – New York State

3.2 Brighter Lives, Better World

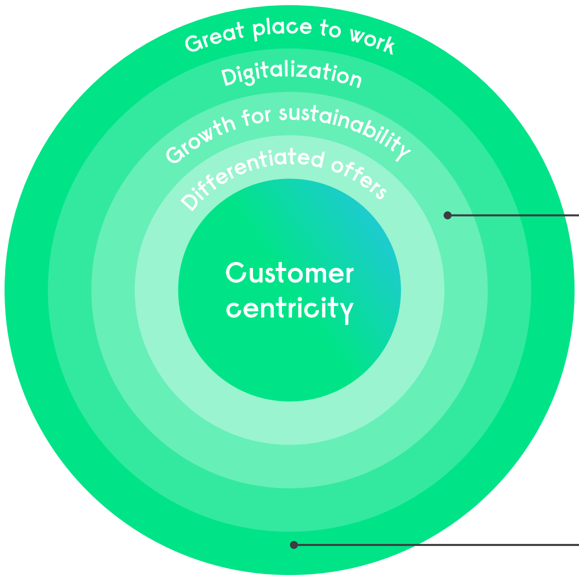
Our world is facing the combined challenges of climate change, resource scarcity, demographic transformation and increasing urbanization. As a purpose-driven organization, we understand the importance of taking urgent action to address these challenges.

In 2016, we launched our Brighter Lives, Better World program to bring our purpose to life and lead the way to a more sustainable future. We have successfully achieved all the ambitious commitments set by our program, including becoming carbon neutral in our operations and shifting to 100% renewable electricity in September 2020. By the end of 2020, Signify had over-performed on most of its other commitments: 84.1% Sustainable revenues (target 80%); 2.923 billion LED lamps and luminaires delivered since 2015 (target >2 billion); zero waste to landfill for our manufacturing sites (with 91% of our manufacturing waste recycled); a safe and healthy workplace with a TRC of 0.22 (target <0.35), and a sustainable supply chain with a 99% performance rate (target 90%). Furthermore, we lit the lives of 6 million people with lighting technology and supported 9,266 entrepreneurs with technical and business skills development (cumulative from 2017). All of these achievements contribute to the six United Nations' Sustainable Development Goals (SDGs) where we can make the biggest impact.

In September 2020, we launched our new Brighter Lives, Better World 2025 program, with the SDGs as our strategic compass. This program sets even more ambitious commitments. We will double our positive impact on society and the environment. We take a value chain perspective and we increase our focus on the positive impact of light. Already carbon neutral in our operations, we will extend our efforts to enable others to accelerate climate action.

Our 2020 achievements	SDG	Our contribution	Our 2025 commitments
100% carbon neutral in our operations (target net 0 kt CO_2)	13 Climate action	We drive **climate action** through our commitment of carbon neutral operations and also reduce the carbon footprint of our products and suppliers	**Double** the pace of the Paris Agreement over our value chain Carbon neutral operations and 100% renewable electricity
84.1% Sustainable revenues (target 80%) 2.923 billion LED lamps & luminaires delivered (target >2 billion) 100% renewable electricity	7 Affordable and clean energy	We deliver cleaner solutions through **energy-efficient** and solar lighting and are committed to 100% renewable electricity in our operations	**Double** the pace of the Paris Agreement over our value chain Increase Climate action revenues from 58% to 72%
Zero waste sent to landfill (target 100% manufacturing sites sending zero waste to landfill)	12 Responsible consumption and production	We are transitioning to a **circular economy** through circular products, systems and services, zero waste to landfill at our manufacturing sites and more sustainable packaging	**Double** our Circular revenues Zero waste to landfill
84.1% Sustainable revenues (target 80%)	3 Good health and well-being	We increase **food availability** and quality through horticulture and animal lighting and increase **health and wellbeing** through human-centric and UV-C lighting	**Double** our Brighter lives revenues
84.1% Sustainable revenues (target 80%) 6 million lives lit (target 5 million)	11 Sustainable cities and communities	We enable smart cities, increase the **safety & security** of roads and urban areas, enable safe & sustainable workplaces in offices and industry, and **light lives** in off-grid areas	**Double** our Brighter lives revenues 10 million lives lit through the Signify Foundation
TRC rate of 0.22 (target <0.35) Supplier sustainability performance rate of 99% (target 90%) 9,266 people trained (target 10,000)	8 Decent work and economic growth	We foster decent work and economic growth by improving the **safety & wellbeing** of employees and suppliers and training lighting entrepreneurs	**Double** the % women in leadership Supplier sustainability performance rate of 95% Safe & healthy workplace with a TRC <0.30

To fulfil our purpose, deploy our strategy and answer the challenges our world is facing, we commit to double our positive impact on the environment and society in 2025, while continuing and strengthening our current sustainability programs. The new program is an integral part of our 5 Frontiers strategy which sets our direction in a changing world. With our strategic frontier Growth for Sustainability, we define areas in which we address global challenges and create value for our customers and society: climate action, circular economy, food availability, safety & security and health & wellbeing. And we will deliver on our strategic frontier Great Place to Work by investing in our people and strengthening our diversity and inclusion program.



Sustainability focus and UN SDGs	Doubling objectives	Continue and strengthen	
Climate action	**Double** the pace we achieve the 1.5°C scenario of the Paris Agreement	Carbon neutral operations & 100% renewable electricity Increase Climate action revenues to 72%	Better World
Circular economy	**Double** our Circular revenues to 32%	Zero waste to landfill and sustainable packaging	Better World
Food availability Safety & security Health & wellbeing	**Double** our Brighter lives revenues to 32%	10 million lives lit through Signify Foundation	Brighter Lives
Great place to work	**Double** our percentage of women in leadership to 34%	Safe & healthy workplace with a TRC less than 0.30 Supplier sustainability performance of 95%	Brighter Lives

UV-C disinfection lamp – Asia and the Middle East

Adding a layer of protection to homes in Asia and the Middle East

Signify entered the UV-C lighting consumer market with a disinfection desk lamp, allowing people in parts of Asia and the Middle East to efficiently disinfect their homes in a matter of minutes.

Customer challenge
A home is more than a place to live; it's somewhere to feel and be safe. In 2020, when most people spent more time at home than ever before, this idea became even more important. The global coronavirus pandemic created a need for ways to disinfect our homes and inactivate microorganisms like viruses and bacteria. But for the home to be truly safe, the product itself needed to have a number of safety features as well.

Solution
The Philips UV-C disinfection desk lamp, first rolled out in Asia, disinfects rooms and effectively inactivates viruses, bacteria, molds and spores in a matter of minutes. It's small enough to be stored out of sight when not in use and easily moved between rooms, allowing an entire house to be disinfected on a rotating basis.

> **"The UV-C desk lamp is highly effective in terms of killing germs and inactivating viruses and includes safe-to-use innovative features like radar detection and voice alert." – Sau Hong Lim, Head of Consumer Customer Segment Management, Digital Products Division, Greater China**

As UV-C light can be harmful to humans and animals, the UV-C disinfection desk lamp is equipped with several safety measures ensuring proper usage so it can do its job of providing that extra layer of protection. These include voice interaction to guide users through each usage, ensuring disinfection takes place successfully. And a built-in microwave sensor detects movement within a radius of three meters and automatically shuts off the desk lamp if any is detected. The best protection of course, is for people to make sure they leave the room, take pets with them, and close the door. Recommended cleaning times vary depending on the size of the room. But generally, a typical bathroom takes about 15 minutes, a bedroom 30 minutes, and a living room 45 minutes.

UV-C
Leveraging more than 35 years of expertise in UV-C lighting, Signify has launched several consumer products to address the growing need for the disinfection of air, surfaces, and objects in people's homes. This in addition to increasing its production capacity of UV-C light sources eightfold and launching 12 product families for the professional market. This is how we're helping keep people safe in a world that's adjusting to a new normal.

Improving visitor experience and safety at The Lovett School

Private school in Atlanta, Georgia uses Wavelinx Lite from Cooper Lighting Solutions to give a multistory parking garage a cost-efficient safety makeover.

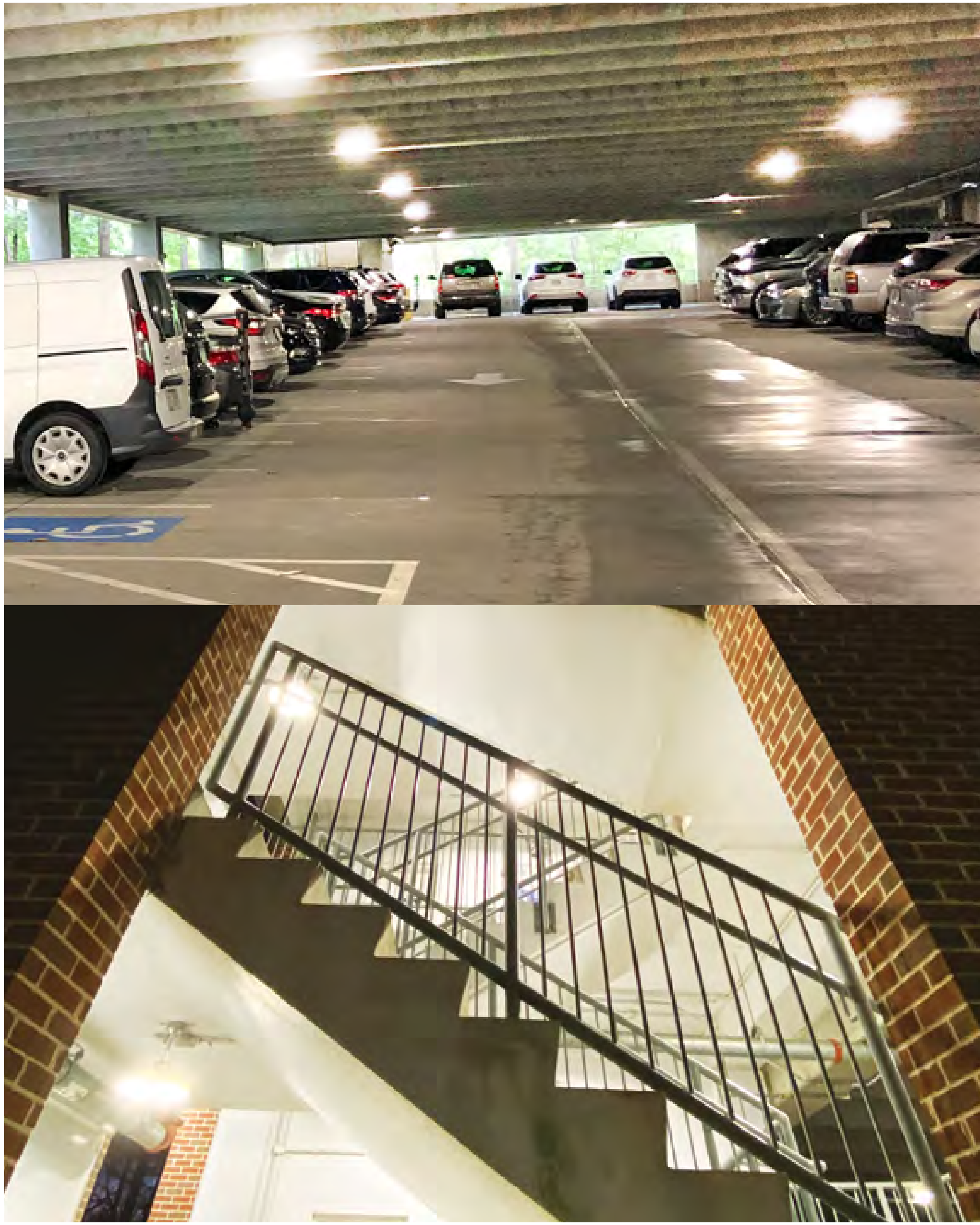
Customer challenge
The Lovett School, founded in 1926 by innovative educator Eva Edwards Lovett, sits on 40 hectares of forested and riverfront land in Atlanta, GA. With 1,600 students, and full educational and extracurricular programming, the school's parking garage is heavily used. The school wanted to upgrade their parking garage, maximizing the sense of security onsite, while lowering the impact the parking garage lighting had on neighbors, without increasing their electricity bill.

Solution
The Lovett School's facilities team wanted a networked motion sensor solution that offered full flexibility on lighting levels and duration. They also wanted it to be free of cybersecurity concerns. They opted to install Cooper Lighting Solutions' Top Tier and Galleon luminaires with WaveLinx Lite motion sensors. This allowed them to group luminaires together and raise lighting levels for a whole area, eliminating scattered dark areas.

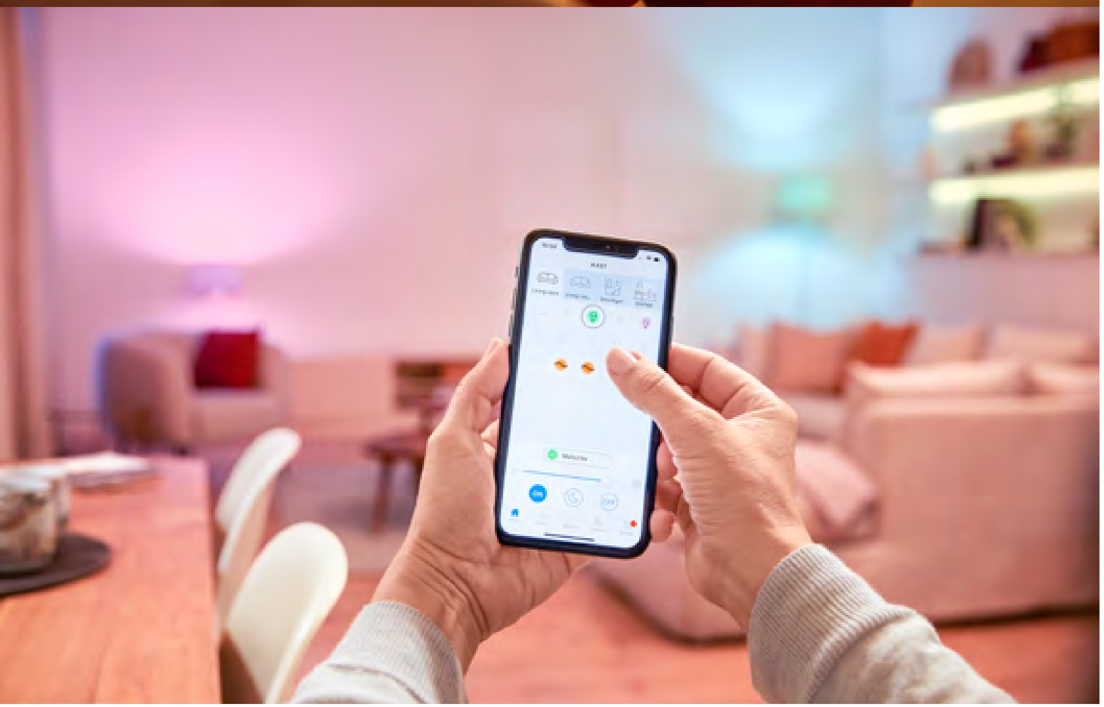
After installation, the team only had to download the Wavelinx Lite app to create groups, explore additional features, and have complete oversight of the project. The entire system was operational out-of-the-box, without any programming required. With a simple interface, clear return on investment, and the ability to expand the system in the future, the team is confident WaveLinx Lite is the right solution for them.

WaveLinx Lite
Cooper Lighting Solutions' WaveLinx Lite offers the ability to customize installations with a secure downloadable mobile application targeted at office, education, and parking garage applications.
By providing out-of-the-box code-compliant luminaires and by empowering the installer to adjust the settings using a mobile app and Bluetooth, WaveLinx Lite reduces project commissioning time by 40% versus a system with stand-alone sensors.

> **"The WaveLinx Lite system has allowed us to control the site lighting to meet the needs of the school. The grouping feature allows us to adjust lights that directly impact neighboring homes while still maintaining ideal light levels throughout the structure to maintain safety." – Brian Holtzapfel, Director of Plant Operations, The Lovett School**



The Lovett School – Atlanta, Georgia



Philips Hue and WiZ Connected – Global

Broadening smart home lighting connectivity with Philips Hue and WiZ Connected

Our two smart home lighting product lines, Philips Hue and WiZ Connected, together provide consumers with the full spectrum of connectivity for smart home lighting.

Customer challenge
Smart home lighting can improve lives, and more and more people are switching on to its advantages. For each person, the drive is different; for some it's a desire to have control over the latest and greatest home lighting at their fingertips. While for others, the goal is simply smarter and easier daily living.

Solution
Signify's two smart home lighting brands, Philips Hue and WiZ Connected, comfortably cover the whole range of smart home lighting needs, for all types of connectivity and all types of consumers.

> "Signify has been very clever acquiring WiZ as an open ecosystem brand for smart lighting, after already having built a number one position with Philips Hue in the last few years. The combination of Philips Hue and WiZ Connected offers consumers endless choices for ultimate smart lighting experiences." – Floris Kila, Product Manager Hubo Belgium

In 2020, Philips Hue released the Philips Hue Play gradient lightstrip, Signify's first individually addressable LED strip. When attached to the rear of any 55-inch or larger TV and paired with a Philips Hue Play HDMI sync box, the Play gradient lightstrip mimics the content on the screen with light, blending the colors together seamlessly, creating a truly immersive experience.
At the same time, WiZ continues to set the standard for plug-and-play smart lights and accessories. In 2020, WiZ launched more than 100 new products that are easy to set-up with Bluetooth and with your existing WiFi network. The smart plug, motion sensor and remote control work with a wide range of WiZ bulbs, spots and table lamps to further extend the accessibility of smart home lighting.

Philips Hue and WiZ Connected
Philips Hue and WiZ Connected are exceptional smart lighting technologies that together serve the needs of a fast-growing group of consumers who are interested in smart home lighting. Philips Hue is the premium gold standard, while WiZ's open IoT platform, accessible to all lighting and electrical vendors, provides the benefits of connected devices to all end-users.

3.3 Value creation model

Through our company purpose, strategy and business activities, we aim to address global challenges and our stakeholders' expectations, while contributing to the achievement of the UN SDGs. Our approach is to optimize long-term value through financial, environmental and social resources. Our activities impact our customers, employees, investors and society at large. By expressing these impacts in monetary terms, stakeholders can consider the indirect economic, social, and environmental effects of our business more effectively. For a trend analysis of our impact, please refer to our Methodology for calculating societal impact on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Climate change
Resource scarcity
Demographic change
Urbanization

The SDGs

Stakeholders

Input

Financial

- **EUR 287 million** R&D investments with **85.1%** sustainable innovation
- **EUR 2,321 million** total equity
- **EUR 7,710 million** total assets

Environmental

- **3,728 terajoules** energy with **100%** renewable electricity
- **EUR 2,816 million** materials
- **971 thousands of m³** water

Social

- **37,926 FTE** in 74 countries
- **44,463** learning modules offered
- **EUR 2.84 million** spent on training
- **73** supplier audits
- **EUR 2.1 million** to the Signify Foundation

Output

- **EUR 6,502 million** sales
- **EUR 817 million** free cash flow
- **19,300** patent rights
- **41** customer NPS

- Carbon neutral operations
- **0 kilotonnes** waste to landfill and **91%** recycled
- **2,923 million** LED lamps & luminaires, avoiding **72,988 kilotonnes** of CO_2
- **84.1%** Sustainable revenues

- **415,720+** e-learning courses booked
- **99%** supplier sustainability performance
- **6 million** lives lit and **9,266** entrepreneurs trained
- **0.22** total recordable case rate
- **25** employee NPS
- **23%** women in leadership

Impact

Brighter Lives

We created EUR 126 million in value for society through total shareholder returns, tax and interest payments.

We created EUR 1,081 million in value for society through employees' salaries & wages and our investment in learning & development combined with the costs to society of injuries & illnesses at work.

Better World

We caused EUR 2.8 million in costs to society through our own environmental footprint. At the same time, we helped creating EUR 1,776 million in value through CO_2 avoided by shifting to LED, solar LED and increased biodiversity*.

* Avoided emissions from LED are based on the difference in energy use between conventional and LED light technologies. Energy use of our LED lamps & luminaires results in 8,293 kilotonnes CO_2, equivalent to EUR 833 million in costs to society.

Solar lanterns for students – Vietnam

Enhancing educational opportunities for ethnic minorities in Vietnam

The Signify Foundation teamed up with UNESCO and the education departments in three Vietnamese provinces to provide solar lighting to more than 5,000 students in 16 lower secondary schools.

"The assistance provided by UNESCO, Signify Vietnam and the Signify Foundation strengthens the education and training for our students. By providing underprivileged students with better educational resources, we encourage them to enjoy school more – and stay longer in the education system." Nguyen The Binh, Director of Education and Training Department, Ha Giang Province

Customer challenge
For the ethnic minority communities in Vietnam's remote and mountainous areas, limited access to electricity is a significant barrier to education. Poor lighting at home and in boarding facilities can negatively affect learning. And many students need to walk unlit paths to and from school. These factors contribute to high drop-out rates: one UNESCO study shows that nearly half of the upper secondary school-aged ethnic minority children remained out of school in 2019.

Solution
The Signify Foundation, along with Signify Vietnam, UNESCO and the Departments of Education and Training of the Ha Giang, Ninh Thuan and Soc Trang provinces, improved access to education for ethnic minorities through the 'Lighting up the Future of Ethnic Minority Communities in Vietnam' project.
The initiative equipped more than 5,000 ethnic minority students of 16 lower secondary schools in remote, mountainous, and disadvantaged areas with innovative lighting systems. These include: 1,900 Philips LifeLight portable solar lanterns, which can be charged at school during the day and used at home in the evening; 7 Philips SunStay streetlights for schoolyard lighting; and hundreds of LED tubes and bulbs for classrooms.
Through the provision of sustainable lighting solutions, the project promotes better access to education and reduces school drop-out rates. As Michael Croft, UNESCO Representative to Vietnam states, "It's so easy for many of us to take it for granted, but having more light translates to more opportunities in the future for these deserving youth."

Solar lanterns
The Philips LifeLight solar lantern is uniquely designed to support the needs of people in off-grid communities. The lanterns' battery fully charges under eight to ten hours of direct sunlight (depending on weather conditions), and provides up to 20 hours of lighting, depending on the lumen output users choose. The lanterns also provide the option of different lighting levels to suit different activities, as well as a USB port for charging phones and other devices.

Dekamarkt – The Netherlands

Creating a new supermarket concept with 3D-printed luminaires

Dutch supermarket chain Dekamarkt gets a custom lighting retrofit, with recyclable 3D-printed luminaires.

Customer challenge
Dekamarkt, a Dutch supermarket chain, was looking to turn one of their 81 supermarket locations into a dynamic concept store. To make it work, they knew that they needed beautiful lighting that was highly customizable, connected, and scalable. With sustainability as one of their core values, they also sought a lighting solution with a small carbon footprint.

Solution
350 3D-printed luminaries, custom designed to fit the existing lighting fixtures, were created to make this project a reality. These lights, paired with the Interact Retail lighting system, allow the Dekamarkt supermarket to have centralized control over its lighting. This allows them to tailor the lighting to different sections of their supermarket, creating a dynamic shopping experience.
The system's ease of use and versatility, coupled with a strong sustainability profile and cost-effectiveness, made the project a success. Because of this, Dekamarkt plans on implementing this concept in an additional 30 stores.

> "Our new store concept uses set-up and colors to create a unique shopping story per section, with sustainable materials at their core. We wanted connected lighting in beautiful and highly customizable luminaires to suit this concept. This is exactly what 3D-printed luminaires can provide. High-quality connected lighting in tailor-made luminaires from recyclable materials. Moreover, Signify's designers made a significant contribution to bringing our unique light concept to life." Ton Beentjes, Project Manager, Detailresult Services

Interact Retail
Interact Retail is a cloud-based, connected lighting system that supports new operational efficiencies, enhances the store experience by creating stunning and flexible spaces, and generates data for in-depth retail analytics. It also allows retailers to centralize their lighting management and reduce operational costs.

3D Printing
Signify's 3D-printed luminaries are built with sustainability in mind. The base material is a polycarbonate that is strong, high-quality and 100% recyclable. Each order can be custom designed and tailored to the client's needs, saving time, energy, waste in manufacturing, packaging, and transportation. The process illustrates that more complex and innovative designs can be aligned with the needs of a circular economy.

4 Corporate performance

Key figures in millions of EUR unless otherwise stated

	2019	2020
Sales	6,247	6,502
Comparable sales growth [1]	(4.6)%	(12.7)%
Gross margin	2,307	2,499
as a % of sales	36.9%	38.4%
Income from operations	401	416
Financial income and expenses	(43)	(54)
Income tax expense	(93)	(27)
Net income	267	335
Adjusted gross margin [1]	2,360	2,556
Adjusted indirect costs [1]	(1,813)	(1,982)
Adjusted EBITA [1]	648	695
as a % of sales	10.4%	10.7%
Restructuring, acquisition and incidental items [1]	(148)	(159)
EBITA [1]	500	536
Basic earnings per share in EUR	2.08	2.58
Dividend per share in EUR [2, 3]	1.35	1.40
Shareholders' equity	2,181	2,196
Net debt [1]	618	1,275
Working capital [1]	388	313
Net cash provided by operating activities	599	891
Free cash flow [1]	529	817
as a % of sales	8.5%	12.6%

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures, of this Annual Report.
2 The dividend proposed for 2019 of EUR 1.35 per share was withdrawn in March 2020 and the amount was allocated to the equity of the Company. As announced on January 13, 2021 the company communicated a proposal to declare an extraordinary dividend of EUR 1.35 per share to its shareholders which is subject to the approval by the 2021 Annual General Meeting of Shareholders.
3 2020 Dividend subject to approval by the 2021 Annual General Meeting of Shareholders.

4.1 Financial performance

4.1.1 Company performance

The COVID-19 pandemic had and is continuing to have an unprecedented impact on our macroeconomic environment and society at large. Our focus is first and foremost on the health, safety and well-being of our employees, customers, partners and people around us. From the pandemic's outset, we put in place both central as well as local teams to monitor the situation and act appropriately given the advice of government and local authorities. This has led us to the closure of some plants, working from home, restrictions on travel, and stringent hygiene and health measures at our locations. We also increased our UV-C lighting capacity more than eightfold to combat the COVID-19 pandemic.

In order for our company to be resilient against the economic impact of the pandemic we implemented a range of financial measures. These included the withdrawal of the 2019 dividend, government support, which was limited, and a solidarity measures program where employees could opt to take a voluntary worktime reduction of 20%. In January 2021, in recognition of the sacrifice and solidarity of our people and shareholders, we announced that we will return the solidarity contribution to our employees and proposed an extraordinary dividend of EUR 1.35 per share, which is in line with the withdrawn dividend proposal for 2019.

In these difficult market dynamics caused by the COVID-19 pandemic, Signify reported sales of EUR 6,502 million, improved its Adjusted EBITA margin by 30 basis points to 10.7%, increased net income to EUR 335 million and delivered net cash provided by operating activities of EUR 891 million.

Signify reported sales of EUR 6,502 million, an increase of 4.1% on a nominal basis. Adjusted for (2.2)% currency effects and 19.0% changes in consolidation, comparable sales declined by (12.7)%.

The performance in 2020 reflected a challenging macro environment, with higher overall uncertainty and lower market activity. Despite the challenging environment, the performance was robust, particularly in the consumer channel, for UV-C and horticulture lighting. LED-based sales represented 80% of total sales compared with 78% in 2019. Including Cooper Lighting pro-forma, 2019 LED-based sales would be 79%.

Signify's gross margin amounted to EUR 2,499 million in 2020 compared with EUR 2,307 million in 2019. The adjusted gross margin increased from EUR 2,360 million in 2019 to EUR 2,556 million in 2020. As a percentage of sales, it increased by 150 basis points to 39.3%, including a negative currency effect of 20 basis points.

Indirect costs increased by EUR 168 million to EUR 2,088 million, largely due to the consolidation of Cooper Lighting and Klite. Adjusted indirect costs increased by EUR 169 million, or 150 basis points as a percentage of sales. Excluding currency effects and changes of scope, adjusted indirect costs decreased by EUR 166 million, as a result of the continued implementation of cost reduction initiatives.

The company reported EBITA of EUR 536 million. Adjusted EBITA amounted to EUR 695 million. This resulted in a 30 basis points improvement in the Adjusted EBITA margin to 10.7%, including a negative currency effect of 30 basis points.

R&D expenses amounted to EUR 307 million compared with EUR 283 million in 2019. This included EUR 20 million of restructuring charges compared with EUR 13 million in 2019, resulting in adjusted R&D expenses of EUR 287 million in 2020. As a percentage of sales, adjusted R&D expenses increased from 4.3% in 2019 to 4.4% in 2020.

Income from operations increased from EUR 401 million in 2019 to EUR 416 million in 2020. Acquisition-related charges amounted to EUR 63 million and are mainly related to the acquisitions of Cooper Lighting and Klite. Incidental items amounted to EUR 13 million. These items have a non-recurring nature and relate to, among other items, transformation initiatives and real estate gains. Restructuring costs were EUR 83 million in 2020, with the majority of costs related to Digital Solutions and Conventional Products. Net income amounted to EUR 335 million compared with EUR 267 million in 2019, and benefited from lower income tax expense.

Net cash provided by operating activities increased from EUR 599 million to EUR 891 million, mainly driven by structural working capital improvements and a lower restructuring cash-out. Free cash flow increased from EUR 529 million in 2019 to EUR 817 million, or 12.6% of sales, in 2020. Net capital expenditures amounted to EUR 75 million in 2020, or 1.2% of sales.

Shareholders' equity remained broadly stable at EUR 2,196 million, as the impact of currency translation results and the purchase of treasury shares for employee long term incentive plans were offset by net income. In March 2020, the company decided to withdraw the proposal to pay a dividend of EUR 1.35 per share for 2019 to ensure resilience during a period of market uncertainty and to further strengthen the company's financial position. In January 2021, based on robust profitability and cash flow performance in 2020, management proposed to pay an extraordinary dividend of EUR 1.35 per share, in 2021.

Net debt at year-end increased by EUR 657 million to EUR 1,275 million compared with the same period in 2019, mainly due to the acquisition of Cooper Lighting.

Working capital decreased by EUR 75 million to EUR 313 million year-on-year, reflecting structural changes in receivables and other working capital items, and higher payables, notwithstanding the addition of Cooper Lighting's working capital. Working capital represented 4.8% of sales at the end of December 2020, compared with 6.2% at the end of December 2019. Working capital improved by 130 basis points to 4.7% of sales when including pro-forma last twelve-months sales for Cooper Lighting and Klite.

As of December 31, 2020, Signify had a net pension liability of EUR 390 million, compared to EUR 437 million at December 31, 2019.

Signify employed 37,926 full-time equivalents (FTEs) at year-end 2020, compared with 32,005 at year-end 2019. The increase in FTEs is mainly driven by the acquisitions that were completed in 2020.

4.1.2 Performance by Division

Performance Digital Solutions

About Digital Solutions

Based on research performed internally, Signify believes that it is the world leader in the professional lighting market for products such as LED and conventional luminaires, systems and services, with strong positions across key geographies. Professional products, systems and services are used in multiple market segments such as offices, commercial buildings, shops, hospitality, industry and outdoor environments including smart cities. The products in professional lighting have historically experienced a rapid shift from conventional to LED lighting and have been integrated into broader Systems and Services eco-systems.

Acquisitions

In 2020, Signify completed the acquisition of Cooper Lighting, a leading provider of professional lighting, lighting controls, and connected lighting. The acquisition strengthens Signify's position in the attractive North American lighting market and better positions the company to capture growth opportunities through increased innovation power and more competitive offerings. The acquisition gives Signify the scale and operational efficiencies to make its offerings even more competitive.

During 2020, additional and new cost, back-office and revenue synergies were identified, which led us to raise the synergy target from USD 60 million to USD 100 million.

The acquisition improved the business mix with Digital Solutions revenues increasing from 42% of total sales in 2019 to 50% in 2020. Cooper Lighting had about 4,900 employees at the end of 2020.

Key figures Digital Solutions
in millions of EUR unless otherwise stated

	2019	2020
Sales	2,649	3,252
Nominal sales growth	0.5%	22.8%
Comparable sales growth [1]	(1.7)%	(14.4)%
Income from operations (or EBIT)	133	119
EBITA [1]	222	230
Adjusted EBITA [1]	265	330
as a % of sales	10.0%	10.2%
Free cash flow [1, 2]	319	436
Number of employees (in FTEs) [3]	10,823	14,657

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 Excluding non-allocated free cash flow items (e.g. tax, interest).
3 2019 FTEs have been revised to conform with the current cost allocation model.

Strategic priorities

Digital Solutions focuses on strengthening its global Professional lighting leadership position by further innovating in LED products, winning in Systems & Services and unlocking the potential in businesses such as agriculture, solar, disinfection lighting and 3D printing. At the same time, Digital Solutions leverages its scale to reduce cost of production. Another strategic priority is to successfully integrate Cooper Lighting, for which the integration and synergy delivery are ahead of plan.

2020 Business highlights

- **Expanded collaboration with Planet Farms in Europe:** Philips GreenPower LED production module boosts the quality and yield of crops year-round at Europe's largest vertical farm in Milan. Signify will also provide horticulture LEDs to future vertical farms that Planet Farms is planning to build.
- **Unlocked solar lighting potential to northern countries:** Philips Combo Charge Controller enables streetlights to switch between solar power and main grid. It boosts output to 24,000 lumens and supports wireless remote monitoring. It makes solar lighting relevant in countries with seasonal sunshine.
- **Partnered with NY Power Authority:** connecting half a million streetlights to Interact City helps the state of New York reduce its energy usage and improve its carbon footprint. It illustrates the important role that connected street lighting can play in creating a smart city infrastructure.
- **Introduced new UV-C products for professionals:** introducing 12 families of UV-C-based products for professional markets has expanded our footprint in this fast-growing market, amongst which the Philips UV-C disinfection trolley and Philips UV-C disinfection upper air luminaires.
- **Improved occupant experience together with Honeywell:** the global partnership adds our lighting systems & software to Honeywell's Healthy Buildings solution and helps to improve productivity and wellbeing in offices. The partnership includes UV-C disinfection lighting, Interact Office and NatureConnect. Our integrated offering was deployed at OPTIMAX Eye Specialists, a network of leading eye specialist clinics in Malaysia, to help the organization improve its air quality and surface disinfection efforts.

2020 Financial performance

Sales were EUR 3,252 million, a nominal increase of 22.8%, as a result of the consolidation of Cooper Lighting. On a comparable basis, sales declined by 14.4%, impacted by weak market conditions.

Digital Solutions reported income from operations of EUR 119 million in 2020. Adjusted EBITA amounted to EUR 330 million. The Adjusted EBITA margin improved by 20 basis points to 10.2%, with a positive impact from the consolidation of Cooper Lighting as well as synergy realization. Restructuring charges amounted to EUR 30 million, mainly related to simplification of business structures, reduction of indirect costs and industrial footprint rationalization. Free cash flow amounted to EUR 436 million.

Market developments

The professional lighting market is a large, growing and resilient market. As the global leader in this market, Signify is well positioned to benefit from powerful global trends such as the shift to connected lighting. Signify's Interact platform is designed to handle data collected from the growing number of connected light points, sensor devices and systems. The transition to connected lighting is occurring rapidly. Potential savings for customers based on total cost of ownership tend to be significant. As an example, Interact City enables cities to centrally manage street lighting and adapt intensity depending on weather, traffic movement or organized events, thereby realizing significant energy cost savings. Up till now, Signify has completed around 2,300 road and street lighting projects in almost 60 countries. In 2020, Signify installed 21 million connected light points world-wide to a total of 77 million across all segments (both professional and consumer). The total number of existing light points worldwide is around 30 billion, showing that the connected lighting market continues to offer significant growth potential for Signify.

2021 and beyond

Digital Solutions executes its strategy built around growth for sustainability through attractive growth platforms such as connected lighting, agriculture lighting, solar lighting, 3D printed luminaires, disinfection lighting and human-centric lighting. It maintains a strong financial profile with unmatched global scale and enhanced synergies from the Cooper Lighting integration.

Performance Digital Products

About Digital Products

Effective Q2 2020, LED and Home were combined into Digital Products. The Division sells a wide variety of LED lamps, namely spots, bulbs and tubes, to the professional and consumer channels. In addition, it sells LED electronic components, consisting of LED drivers and LED modules, to OEMs for professional luminaire applications in the retail, office, industry and outdoor segments. It is the global market leader in connected home systems and a top-three player in selected home luminaires markets. The Division develops and sells connected lighting systems and luminaires. For the development of its offering, Digital Products builds on the company's strong in-house R&D capabilities and knowledge in LED, IoT and lighting applications, complemented by extensive qualitative and quantitative end user research.

Based on research performed internally, the company believes that Digital Products held the number one position in sales in the global LED lamps and electronics market in 2020.

Philips Hue, introduced in 2012, is the market leader in connected lighting for consumers. The system enables users to personalize their lighting to suit their preferences and needs. Users can control lights wirelessly through apps and smart devices, with their voice or with remote control switches. The Philips Hue offering is continuously expanding. Recent examples of new innovations include the launch of the Philips

Hue Play gradient lightstrip, new Filament lamps and the Philips Hue White lustre bulb.

The acquisition of WiZ Connected in 2019 further extended the accessibility of consumer connected lighting. Signify's combined consumer connected lighting offering enables them to connect via WiFi, Bluetooth, or via the Philips Hue bridge.

Key figures Digital Products
in millions of EUR unless otherwise stated

	2019	2020
Sales	2,412	2,288
Nominal sales growth	5.8%	(5.1)%
Comparable sales growth [1]	1.4%	(8.3)%
Income from operations (or EBIT)	215	269
EBITA [1]	222	277
Adjusted EBITA [1]	260	295
as a % of sales	10.8%	12.9%
Free cash flow [1, 2]	240	406
Number of employees (in FTEs) [3]	13,499	14,628

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 Excluding non-allocated free cash flow items (e.g. tax, interest).
3 2019 FTEs have been revised to conform with the current cost allocation model.

Strategic priorities

Digital Products' strategy is focused on capturing growth from the transition to integrated luminaires, driven by sustainability-led socket-base conversion, and on IoT-technology for consumer connected lighting, while strengthening its financial profile by growth, innovation and the integration of Klite.

2020 Business highlights

- **Acknowledgments:** Philips Hue was named #21 in the top 100 greatest designs of modern times by Fortune Magazine. It stated that Philips Hue made "lighting our homes as personal as the music we listen to". In addition, Philips Hue products won five Red Dot design awards for its Discover Floodlight Impress range, outdoor sensors, Smart Button and White and Color Ambiance GU10 perfect fit lamp.
- **Introduced Philips Hue Play gradient lightstrip:** specifically designed so the lightstrip can be mounted behind any TV. The pixelated lightstrip produces an almost unlimited combination of colors that can seamlessly blend together and provide more nuance, creating a truly immersive experience.
- **Expanded WiZ product portfolio:** launched more than 100 new products that are easy to set-up with Bluetooth and existing WiFi networks, further extending the accessibility of consumer connected lighting. The newly introduced products include a smart plug, sensor, remote and a wide range of bulbs and spots in different colors.
- **Introduced UV-C disinfection products for consumers:** the Philips UV-C disinfection desk lamp effectively disinfects a room, killing viruses and bacteria, and was introduced in Asia, Middle East, Europe and Latin America in the second half of the year. The disinfection box, which can disinfect small objects in a matter of minutes, was introduced in China and Indonesia in the fourth quarter.
- **Launched double-ended LEDtube:** the double-ended LEDtube was launched in Growth Markets and Greater China. Its plug-and-play features enable easy retrofit for magnetic ballast-based luminaires.
- **Launched next generation of high-volume panel drivers:** its dual-current feature enables simplified logistics with less SKUs, while its low ripple light output is comfortable for eyes and friendly for cameras. The increased efficiency helps to save more energy than the previous generation.

2020 Financial performance

Sales were EUR 2,288 million, reflecting a nominal sales decrease of 5.1%. Comparable sales declined by 8.3%. Overall, sales in the consumer channel have shown a solid performance in weak market conditions, specifically online sales.

Income from operations increased to EUR 269 million compared with EUR 215 million in 2019, driven by gross margin improvement, on top of positive mix from consumer connected growth. Adjusted EBITA amounted to EUR 295 million. This resulted in an improvement of the Adjusted EBITA margin of 210 basis points to 12.9%, a sign of Digital Products maturing in its profit margin profile. Free cash flow increased by EUR 166 million to EUR 406 million.

Market developments

There is a transition in both professional and consumer segments from LED lamps to functional LED luminaires and connected solutions, as anticipated in the company's strategy. This trend is driven by an increasingly compelling proposition of both integrated LED luminaires and connected solutions in particular, whilst at the same time the replacement cycle of lamp sockets reduces due to the longer lifetime of LEDs. The company expects this trend to continue for the foreseeable future. This provides a solid growth path with the ambition to drive market share gains and leadership in functional luminaires and connected lighting. While Signify expects that the LED lamps market will decline in the next few years, the company is well positioned to continue to grow market share in this market, building on its strong position in the lighting distribution. The LED electronics market is expected to grow, particularly driven by the shift to connected lighting. Signify will drive growth in LED electronics through the transition to smart lighting via innovation leadership in connected components and by expanding the market position in indoor LED electronics.

2021 and beyond

In 2021, Digital Products aims to drive market share growth in LED Lamps through differentiation with a multi-brand offer of A-brands, B-brands and Private Label sales. The Division also plans to grow sales of LED Luminaires by innovating and expanding its product portfolio and by leveraging its LED R&D and distribution strength. It aims to further accelerate growth in its Consumer Connected business with a two-system offer of Philips Hue and WiZ and by continuing to innovate in relevant consumer benefits such as ambiance, wellbeing and security. At the same time, Digital Products aims to improve the total Division's profitability and cash profile by continuing to increase insourcing to Klite, the China-based manufacturing company in which Signify acquired a 51% stake in 2019.

Performance Conventional Products

About Conventional Products

Conventional Products is the global market leader in the conventional lighting business and comprises the company's conventional lamps and lamp electronics businesses. It produces and sells lamps, based on a wide variety of non-LED based technologies. This includes HID, TL, compact fluorescent, halogen, incandescent, as well as electronic components (electronic ballasts and drivers) and specialty lighting. Conventional lamps are used in a wide variety of residential and professional applications and are bought by consumers, electrical installers and professional end-users through a wide range of channels. Lamp electronics are mainly sold to luminaire manufacturers directly and as replacement products to electrical wholesalers. Finally, Conventional Products sells digital projection lamps and drivers to the OEM market and the replacement market.

Key figures Conventional Products
in millions of EUR unless otherwise stated

	2019	2020
Sales	1,159	943
Nominal sales growth	(18.8)%	(18.7)%
Comparable sales growth [1]	(20.5)%	(16.5)%
Income from operations (or EBIT)	168	149
EBITA [1]	168	149
Adjusted EBITA [1]	222	170
as a % of sales	19.2%	18.0%
Free cash flow [1, 2]	222	188
Number of employees (in FTEs) [3]	7,229	8,051

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 Excluding non-allocated free cash flow items (e.g. tax, interest).
3 2019 FTEs have been revised to conform with the current cost allocation model.

Strategic priorities

Conventional Products enables Signify to reach customers thanks to its long and strong commercial synergies and brand coverage. While the overall conventional market continues to decline, Conventional Products' focus is on winning market share in key segments and markets to remain the 'last company standing'. Conventional Products continues to proactively manage its manufacturing footprint and reduce operational costs to optimize free cash flow.

2020 Business highlights

On top of LEDification, energy efficiency and legislation to ban certain conventional technologies remain important factors of the conventional market decline.

Conventional Products maintains a legislation-compliant portfolio and invests in remaining opportunities such as UV-C light sources and conventional horticulture lighting.

The Division is successfully executing its last company standing strategy, strengthening its leadership position by continuously gaining market share, increasing customer and employee Net Promoter Scores and delivering cash.

As part of its strategy, it is proactively managing its manufacturing footprint. Signify operated 11 manufacturing plants for conventional lamps at the end of 2020 compared with 45 at the end of 2008.

2020 Financial performance

Sales for 2020 amounted to EUR 943 million, a decline of 18.7% on a nominal basis and 16.5% on a comparable basis. The rate of decline was reduced by strong demand for UV-C and horticulture lighting.

Income from operations reduced to EUR 149 million, due to the ongoing decrease in sales, partly offset by proactive rationalization of the manufacturing footprint and a reduction in indirect costs. Restructuring costs amounted to EUR 23 million and were mainly related to further optimization of the manufacturing footprint. Adjusted EBITA for 2020 decreased to EUR 170 million compared with EUR 222 million in 2019. The Adjusted EBITA margin remained robust at 18.0% in 2020. Conventional Products continues to deliver on its 'last company standing' strategy, which resulted in further market share gains and strong free cash flow generation of EUR 188 million in 2020.

Market developments

Signify estimates that the conventional lighting market declined at a faster pace than its Conventional Products business in 2020 and thus continued to gain market share.

The conventional lamps market is expected to continue to decline in the coming years due to the ongoing adoption of LED lighting technologies.

2021 and beyond

The performance of Conventional Products in 2020 reflected the successful execution of the 'last company standing' strategy to extract value from the conventional business. In 2021, Conventional Products will continue to execute its strategy and optimize free cash flow by leveraging the Division's cost advantage, scale, global footprint and lean manufacturing capabilities while responding to customer demand for conventional products and growing its UV-C lighting business by leveraging its decades-long expertise.

Performance Other

Other reported income from operations of EUR (122) million and EBITA of EUR (120) million, including restructuring costs of EUR 19 million. 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 company-enabling functions. Adjusted EBITA amounted to EUR (100) million in 2020, in line with 2019. The number of FTEs was 589 at the end of 2020, versus 454 at the end of 2019 (2019 has been revised to conform with the current cost allocation model).

4.1.3 Performance by geographic cluster

Comparable sales in Europe decreased by 6.8%, reflecting challenging market conditions, particularly in France, the UK, Spain and Italy. In Americas nominal sales increased by 38.1%, mainly driven by the consolidation of Cooper Lighting, while comparable sales decreased by 15.9% with a negative impact from all markets. In the Rest of the World, comparable sales declined by 16.3%, particularly due to China, India, Southeast Asia and Indonesia.

Sales by geography in millions of EUR unless otherwise stated

	2019	2020	Change	CSG [1, 2]
Europe	2,238	2,060	(7.9)%	(6.8)%
Americas [3]	1,747	2,414	38.1%	(15.9)%
Rest of the world	1,855	1,500	(19.1)%	(16.3)%
Global businesses [3]	406	528	29.8%	(7.3)%
Total	**6,247**	**6,502**	**4.1%**	**(12.7)%**

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 Comparable sales growth.
3 In 2020 Americas include Cooper Lighting and Global businesses include Klite.

4.2 Sustainability performance

Brighter Lives performance

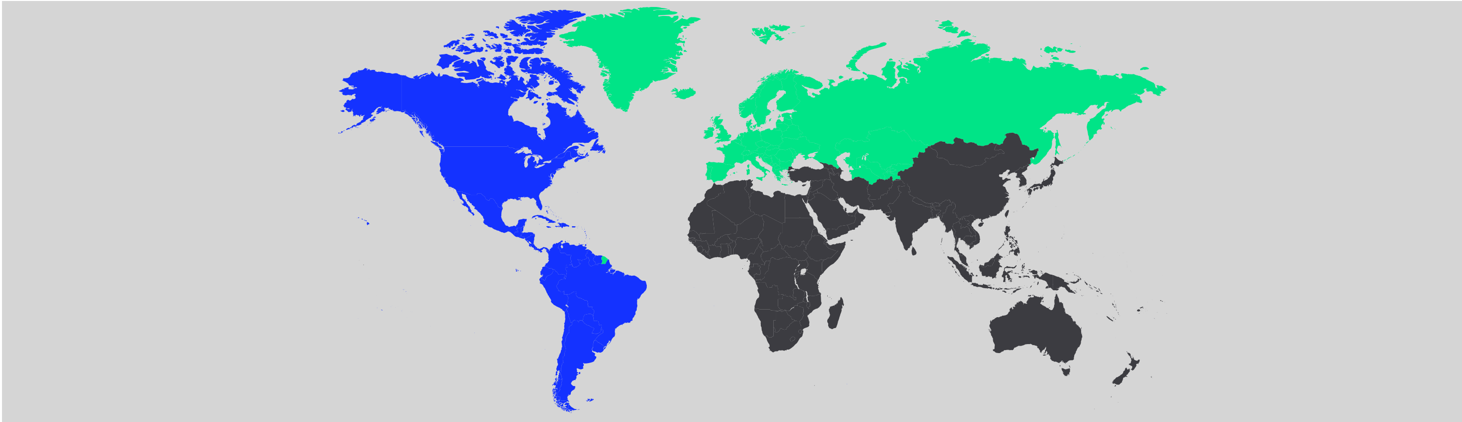
In 2020, our workforce increased to 37,926 FTEs (2019: 32,005 FTEs). This was primarily due to Signify's acquisitions in 2020. Employee engagement is measured through the employee Net Promoter Score (NPS). Our NPS improved in 2020, with a yearly average score of 25 (2019: 18). Our safety performance indicator (TRC rate) was 0.22 per 100 FTEs (0.32 in 2019). This is a 31% improvement from 2019 and we successfully met our 2020 target on safety.

Better World performance

In September 2020, we finalized our journey to carbon neutrality in our operations and our shift to 100% renewable electricity. As a manufacturing company, we still have unavoidable emissions. In 2020, our gross operational carbon footprint was 260 kilotonnes. This 28% decrease compared to 2019 can be explained by fewer emissions from logistics and business travel. At the end of 2020, 100% of manufacturing sites achieved our zero waste to landfill commitment (2019: 71%) and 91% of our total waste was recycled.

Through our global presence, we drive sustainability across 18 markets.

Sustainable performance per market



	FTEs		Manufacturing sites [2]		Safety TRC rate [2]		CO_2 emitted (kilotonnes) [2]		Waste recycled [2]	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Europe	**11,442**	**11,418**	**16**	**14**	**0.36**	**0.23**	**119**	**101**	**86%**	**90%**
Benelux	3,294	3,163	5	4	0.41	0.31	18	12	82%	87%
Eastern Europe	5,836	5,975	7	7	0.16	0.11	73	70	87%	90%
DACH (Germany, Austria, and Switzerland)	401	388	–	–	–	–	4	3	–	–
France	572	556	–	–	5.53	2.76	10	6	–	–
Iberia	688	622	2	2	0.79	0.47	6	5	80%	79%
Italy, Israel, and Greece	183	146	1	–	0.46	–	3	1	–	–
Nordics	238	241	1	1	–	–	2	2	–	–
UK & Ireland	231	327	–	–	–	–	3	2	–	–
Americas	**6,100**	**10,220**	**15**	**14**	**0.31**	**0.27**	**133**	**69**	**89%**	**89 %**
Canada	592	749	2	2	0.18	0.16	10	5	93%	92%
Latin America	3,453	5,915	6	5	0.15	0.17	26	10	90%	88%
United States of America	2,056	3,555	7	7	0.68	0.62	97	54	86%	89%
Rest of the world	**14,463**	**16,288**	**13**	**11**	**0.25**	**0.17**	**111**	**90**	**98%**	**98%**
ASEAN	458	411	–	–	–	–	4	4	–	–
Indonesia	180	166	–	–	–	n.a.	2	1	–	–
Greater China	10,431	11,766	8	6	0.16	0.16	37	34	97%	94%
India	2,389	2,983	1	1	0.12	0.8	47	39	100%	100%
Far East	75	75	–	–	–	–	2	1	–	–
Middle East, Turkey, Africa & Pakistan [1]	761	730	3	3	0.95	0.3	11	7	89%	89%
Pacific	170	158	1	1	1.8	–	8	4	–	–

[1] In 2020, we integrated Market Africa with Market Middle East, Turkey, & Pakistan, to form Market Middle East, Turkey, Africa & Pakistan.
[2] Except for FTEs data, acquisitions under the normative integration period for environmental and social disclosures of two years are excluded from this table.

4.3 Proposed distribution to shareholders

Pursuant to Article 10 of the Articles of Association of Signify N.V., a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of ordinary shares subject to shareholder approval after year-end. As of December 31, 2020, the issued share capital consists only of ordinary shares; no preference shares have been issued. Under Article 10 of the Articles of Association of Signify N.V., the Board of Management can determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

Signify proposes to declare a cash dividend of EUR 1.40 per share for 2020. This is in addition to the extraordinary cash dividend of EUR 1.35 per share, announced on January 13, 2021. The amount of extraordinary dividend is in line with the dividend proposal of EUR 1.35 for 2019, which was withdrawn to ensure the company's resilience and to strengthen its financial position during the COVID-19 crisis. Both dividend proposals will be subject to approval at the Annual General Meeting of Shareholders (AGM) to be held on May 18, 2021.

The balance sheet presented in this report, as part of the company financial statements for the period ended December 31, 2020, is before appropriation of the result for the financial year 2020.

4.4 Outlook

Signify is committed to the following medium-term guidance for the period 2021-2023:

- Yearly comparable sales growth of 0% to 5%
- Adjusted EBITA margin of 11% to 13% in 2023
- Free cash flow above 8% of sales for the period 2021-2023
- ROCE of at least 11% for the period 2021-2023

For 2021, Signify expects positive comparable sales growth, the level of which will depend on the recovery pattern in its markets. In addition, the company expects to continue its steady progress towards its medium-term Adjusted EBITA margin objective. Cash flow, following two years of significant structural working capital improvements, is expected to exceed 8% of sales. As guided for the mid-term, this includes a higher initial cash outflow for cost restructuring and continued post-merger integration activities.

4.5 Organizational structure

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 is the former BG Professional, including Cooper Lighting.
- Division Digital Products combines BG LED and BG Home, including WiZ.
- Division Conventional Products is the former BG Lamps.

'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. With this new structure, the company created one global operations team to drive customer and business excellence.

As the pandemic is expected to have a long term impact on the lighting market, Signify communicated in January 2021 a further plan that aims to optimize cost and enhance competitiveness by making its central organization leaner. It intends to remove its current market group layer and organize its markets in clusters. These organizational changes are currently subject to works council proceedings.

4.6 Competitive landscape

The lighting market is a fragmented market across technologies, products and geographies. Companies active in the market include traditional lighting companies as well as companies, mainly based in Asia, that entered the market with the advent of LED technology.
The introduction of connected lighting brought new competitors to the market.

While Signify is active in 74 countries, competition in the market for lamps tends to be more global while competition in the market for luminaires is more regional in nature. The market for conventional lighting declines and competitor focus is on managing this decline. The market for LED lighting continues to grow and sees competition around product offerings, customer use cases, pricing and innovation.

5 Three-year overview

Three-year financial summary in millions of EUR unless otherwise stated

	2018	2019	2020
Income statement			
Sales	6,358	6,247	6,502
Comparable sales growth [1]	(4.4)%	(4.6)%	(12.7)%
Nominal sales growth	(8.7)%	(1.8)%	4.1%
Sales of LED based products (as % of sales)	71%	78%	80%
Gross margin	2,382	2,307	2,499
as a % of sales	37.5%	36.9%	38.4%
Income from operations (or EBIT)	410	401	416
Net income (loss)	261	267	335
Adjusted EBITA [1]	640	648	695
as a % of sales	10.1%	10.4%	10.7%
EBITA [1]	504	500	536
Net income (loss) attributable to shareholders	263	262	325
Earnings per share in EUR	1.95	2.08	2.58
Dividend per share in EUR [2, 3]	1.30	1.35	1.40
Balance sheet			
Total assets	6,181	6,715	7,710
Shareholders' equity	2,041	2,181	2,196
Net debt [1]	589	618	1,275
Working capital [1]	536	388	313
Investments and cash flow			
Cash flow from operating activities	381	599	891
Net capital expenditure	(75)	(70)	(75)
Free cash flow [1]	306	529	817

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 The dividend proposed for 2019 of EUR 1.35 per share was withdrawn in March 2020 and the amount was allocated to the equity of the Company. As announced on January 13, 2021 the company communicated a proposal to declare an extraordinary dividend of EUR 1.35 per share to its shareholders which is subject to the approval by the 2021 Annual General Meeting of Shareholders.
3 2020 Dividend subject to approval by the 2021 Annual General Meeting of Shareholders.

Three-year sustainability summary

	2018	2019	2020 [1]
Sustainable revenues, in millions of euros	5,005	5,102	4,376
Sustainable revenues, as a % of total sales	79.0%	82.5%	84.1%
Sustainable innovation, in millions of euros	236	225	244
Sustainable innovation, as a % of adjusted research & development spend	82.2%	83.5%	85.1%
Operational gross carbon footprint, in kilotonnes CO_2-equivalent	401	363	260
Operational energy consumption, in terajoules	4,054	3,885	3,728
Operational energy efficiency, in terajoules per million euro sales	0.64	0.62	0.72
Renewable electricity, as a % of total electricity usage	89%	94%	100%
Water intake, in thousands m^3	1,266	944	971
Total waste to landfill in scope of our commitment, as a % of total waste	6%	2%	<0.5%
Recycled waste via external contractor, as a % of total waste	82%	90%	91%
Emissions of VOCs in lacquering processes	1,463	1,027	804
ISO 14001 certification, as a % of all reporting organizations	79%	77%	82%
OHSAS 18001/ISO 45001 certification, as a % of all reporting organizations	67%	64%	72%
Employee Net Promoter Score	13	18	25
Women in leadership, as a % of total leadership roles	17%	17%	23%
Total recordable cases, per 100 FTEs	0.29	0.32	0.22
Lost workday injuries, per 100 FTEs	0.18	0.19	0.17
Fatalities	1	1	0
Initial and continual supplier conformance audits, number of audits	96	73	73
Suppliers audits, performance rate, in %	93%	99%	99%

1 Acquisitions under the normative integration period for environmental and social disclosures of two years are excluded from these results, except for Sustainable innovation.

Governance

6 Board of Management

Signify N.V. is managed by a Board of Management entrusted with the management of the company.

The Board of Management is responsible for the deployment of the company's strategy and the achievement of the operational and financial objectives of the company, and is chaired by the Chief Executive Officer. The Board of Management is accountable for its actions and decisions to the Supervisory Board and is answerable to shareholders of the company at the Annual General Meeting of Shareholders. The Rules of Procedure of the Board of Management are published on the company's website.

Corporate governance
A full description of the company's corporate governance structure is published in chapter 10, Corporate governance, of this Annual Report.

Eric Rondolat
Born 1966,
Italian/French

Chief Executive Officer
Chair of the Board of Management
since May 2016

Javier van Engelen
Born 1968,
Belgian/Portuguese

Chief Financial Officer
Member of the Board of Management
since October 2020

Maria Letizia Mariani
Born 1960,
Italian

Chief Marketing and Strategy Officer
Member of the Board of Management
since May 2020

René van Schooten[1]
Born 1959,
Dutch

Member of the Board of Management
since May 2016

[1] René van Schooten was a member of the Board of Management throughout 2020. As announced earlier, René van Schooten relinquished his position on the Board of Management as of January 1, 2021 and will stay on as advisor to the board till the end of May 2021.

7 Supervisory Board

The Supervisory Board supervises the policies and management and the general affairs of Signify. It also provides advice to the Board of Management. The Supervisory Board, in the two-tier corporate structure under Dutch law, is a separate body that is independent of the Board of Management.

The Rules of Procedure of the Supervisory Board are published on the company's website. For details on the activities of the Supervisory Board in 2020 see chapter 8, Supervisory Board report, and chapter 9, Remuneration report, of this Annual Report.

Arthur van der Poel
Born 1948,
Dutch

Chair

Committee(s) [B,C]
Chair of the Corporate Governance and Nomination & Selection Committee
Member of the Supervisory Board since 2016; second term expires in 2024

Former member of the Board of Management of Koninklijke Philips N.V. Currently Chair of the Supervisory Board of BDR Thermea Group B.V.

Gerard van de Aast
Born 1957,
Dutch

Vice-Chair

Committee(s) [A,B]
Chair of the Remuneration Committee
Member of the Supervisory Board since 2017; first term expires in 2021

Former Chair of the Boards of Management of Imtech and VolkerWessels. Currently Chair of the Supervisory Board of Nederlandse Spoorwegen (Dutch Railways) and member of the Supervisory Board of Witteveen+Bos.

Eelco Blok
Born 1957,
Dutch

Committee(s) [A,D]
Member of the Supervisory Board since 2018; first term expires in 2022

Former Chief Executive Officer of KPN. Currently advisor of privately-held investment company Reggeborgh, member of the Supervisory Boards of PostNL, VolkerWessels and Fairphone and non-executive Director of Telstra and of the OTE Group.

[A] Member of the Audit Committee
[B] Member of the Remuneration Committee
[C] Member of the Corporate Governance and Nomination & Selection Committee
[D] Member of the Digital Committee

The above reflects the composition of the committees as per January 1, 2021. See for composition throughout 2020, Chapter 8, Supervisory Board Report

Supervisory Board

Pamela Knapp
Born 1958,
German

Committee(s) [A,B]
Chair of the Audit Committee
Member of the Supervisory Board since 2020; first term expires 2024

Former CFO of Siemens' Power Transmission and Distribution Division, former CFO of GfK SE. Currently member of the Supervisory Boards of LANXESS and Compagnie de Saint-Gobain.

Rita Lane
Born 1962,
American

Committee(s) [C,D]
Member of the Supervisory Board since 2016; second term expires in 2024

Former Vice President of Operations at Apple Inc. Currently member of the Board of Directors of Sanmina Corporation, L3Harris Technologies and Amphenol Corporation.

Frank Lubnau
Born 1969,
German

Committee(s) [C,D]
Chair of the Digital Committee
Member of the Supervisory Board since 2020; first term expires 2024

Former Chief Digital Officer for Industrial Technology at Robert Bosch and Chief Technical Officer at Siemens' Customer Services Division.

[A] Member of the Audit Committee
[B] Member of the Remuneration Committee
[C] Member of the Corporate Governance and Nomination & Selection Committee
[D] Member of the Digital Committee

The above reflects the composition of the committees as per January 1, 2021. See for composition throughout 2020, Chapter 8, Supervisory Board Report

8 Supervisory Board report

Letter from the Chair

I am pleased to present our Supervisory Board report for 2020.

The year 2020 was an extraordinary year with the COVID-19 pandemic affecting us all. The company responded quickly and set up crisis response teams early in the year. As a Supervisory Board, we had additional discussions on COVID-19 developments, the response of the business, and the protection of the health and safety of employees. We are pleased with how the Board of Management handled and is handling the COVID-19 crisis, showing determination from the start despite the many uncertainties. In financial terms, and against a decreasing demand, the company was able to achieve a robust financial performance in 2020.

At the same time, the company continued to achieve its sustainability goals and completed its first five-year program over performing on most of its ambitious commitments. This shows that sustainability is truly an integral part of Signify's strategy.

The company also closed the acquisition of Cooper Lighting in 2020. The Supervisory Board made a virtual acquaintance with the team and the business and looks forward to visiting the Cooper Lighting premises when circumstances allow again.

The 2020 Annual General Meeting of Shareholders (AGM) and the Extraordinary Meeting of Shareholders of October were held entirely virtual this year to protect the health and safety of the company's shareholders and employees.

We are looking forward to a brighter future and will be continuing our contribution to the company and its stakeholders.

Arthur van der Poel
Chair of the Supervisory Board

8.1 Introduction

This report provides information on how the Supervisory Board and its committees fulfilled their duties in 2020.

In 2020, we had a few changes to the composition of our Supervisory Board; Jill Lee stepped down at the end of July, and Pamela Knapp and Frank Lubnau were appointed as new members by the AGM in May 2020. The AGM also re-appointed Arthur van der Poel and Rita Lane. The Supervisory Board currently consists of six independent members.

In 2020, the Supervisory Board had three committees that cover key areas in greater detail: an Audit Committee, a Corporate Governance and Nomination & Selection Committee, and a Remuneration Committee. As of January 1, 2021, the Supervisory Board established the Digital Committee. The charters of each of the committees are published on the company's website.

8.2 Key discussion topics and meetings in 2020

Meetings and information

The Supervisory Board held ten meetings in 2020 as well as additional calls to discuss COVID-19 developments. While we were able to organize in-person meetings twice, in view of COVID-19, most meetings were held via video conference calls. The Supervisory Board and committee meetings were well attended, with an attendance rate of 100% of each Supervisory Board member.

Supervisory Board and Committee Attendance Record

	Supervisory Board physical meetings	Supervisory Board calls	Audit Committee	Nomination & Selection Committee	Remuneration Committee
Arthur van der Poel	2/2	8/8		7/7	4/4
Gerard van de Aast	2/2	8/8	5/5		4/4
Eelco Blok	2/2	8/8	5/5	7/7	
Pamela Knapp [1]	1/1	3/3	2/2		
Rita Lane	2/2	8/8		7/7	4/4
Jill Lee [2]	1/1	6/6	3/3		
Frank Lubnau [3]	1/1	3/3		4/4	

1 Ms. Knapp was appointed as member of the Supervisory Board in May 2020. As of April, Ms. Knapp joined meetings as a guest (not included in the table).
2 Ms. Lee stepped down from the Supervisory Board on July 31, 2020.
3 Mr. Lubnau was appointed as member of the Supervisory Board in May 2020. As of January, Mr. Lubnau joined meetings as a guest (not included in the table).

Each of the Supervisory Board committees regularly convened and reported back on their activities to the full Supervisory Board. In addition, the Chair of the Supervisory Board and the CEO are in regular contact on a variety of matters. Our members also individually interacted with members of the Board of Management and with senior management outside the formal Supervisory Board meetings. Whenever one of our members wanted to be informed on a specific topic, he or she requested this, and follow-up was provided by the Board of Management or senior management.

There were no apparent conflicts of interest of material significance in 2020, which would have called for one of the members not to participate in the decision-making.

In 2020, the Supervisory Board discussed a range of topics, including:

- **COVID-19**
  The COVID-19 pandemic created an unprecedented situation globally. End March, we organized an additional Supervisory Board meeting for an in-depth discussion on COVID-19 developments, its potential impact and actions that management had taken and intended to take. We approved the proposed suspension of the company's financial outlook for 2020 and the withdrawal of the dividend proposal. The Supervisory Board members appreciated the voluntary 20% pay reduction for Q2 that the company's leadership team took and decided to also reduce its fees by 20% for Q2. Subsequently, a vast majority of Signify's global employees voluntarily supported a 20% worktime reduction and pro-rata payment for Q2.

  Eventually, the company's financial performance in 2020 enabled it to return contributions to employees who participated in the above solidarity program; the pay reduction for the leadership team and Supervisory Board remains in place. The Supervisory Board approved the proposal to declare an extraordinary dividend and supported the deleverage intention that Signify announced on January 13, 2021.

  Throughout 2020, the Supervisory Board was kept updated on developments around COVID-19, both through additional calls and as a recurring item on the Supervisory Board meeting agenda, focusing on people, security, operations and commercial. The COVID-19 pandemic and its impact on the company will remain on the Supervisory Board's agenda in 2021.

- **Strategy, objectives and innovation**
  On an ongoing basis, we have had in-depth discussions on industry trends

as well as opportunities and risks related to the Signify business model. We have reviewed, challenged, and advised the Board of Management on the company's implementation of its strategic plan and strategic priorities throughout the year.

In September 2020, we had our annual dedicated session on the company's strategic plan and updates thereto. As part of this session, we discussed market developments, the competitive landscape and the company's current position, progress on strategic initiatives and sustainability goals, as well as the company's strategy for the coming years. This session was complemented by deep dives on Solar, Agriculture, Digital, UV-C, LiFi, 3D printing, software tools and capabilities as well as Innovation return on investment.

The strategic plan discussion was followed by a session in November in which management presented the strategic plan together with its medium-term financial objectives. We also discussed and approved the company's targets for 2021 within the context of its 2021 operating plan.

As part of the November meeting, the company's innovation department gave demonstrations of recent and future technologies being developed.

- **Business performance**
Each quarter, we discussed the company's business performance in detail. These discussions included updates on the company's financial performance, cost reduction initiatives, developments in working capital, the level of inventories, the performance of Cooper Lighting, the progress on key performance indicators of Signify and forecasts.

The Supervisory Board also discussed the impact of COVID-19 on the global economy, the lighting market and scenarios for recovery and growth. We discussed the negative impact of the COVID-19 pandemic on the company's sales growth and actions taken to protect the company's profitability and cash, as well as opportunities for UV-C lighting.

- **Financial reporting**
We discussed the quarterly results and the (semi-)annual financial statements for 2020, including related reports from the internal and external auditors and non-financial information.

- **Sustainability**
During the year, we were updated on the company's sustainability and corporate social responsibility programs and progress made towards their respective goals.

The company's first five-year sustainability program was completed in 2020, and it launched its new sustainability program Brighter Lives, Better World 2025. We are impressed by Signify's achievements under its first program. Viewing the initial reactions to the launch of the new program, we are pleased to see that the market acknowledges that sustainability is an integral part of the company and trusts that the company will achieve the ambitious targets set. We wholeheartedly support the new program and share this trust.

More information is provided in chapter 16, Sustainability statements, of this Annual Report.

- **Digitalization**
This year, the company launched a multiyear digital roadmap with prioritized initiatives based on market trends and customer needs. In a dedicated session we discussed the company's digital strategy, roadmap and activities in depth. In view of the importance of digitalization, especially in the coming few years, the Supervisory Board established a Digital Committee from its midst as of January 1, 2021. See also sub-section 8.3.4, Digital Committee.

- **Organizational structure**
The Supervisory Board discussed the change of the company's organizational structure from four Business Groups to three Divisions, effective Q2 2020. It also discussed the intended organizational changes to adapt to the impact of the COVID-19 pandemic. See chapter 4.5, Organizational Structure, of this Annual Report for more information.

- **Risk management and internal controls**
We discussed the company's risk management and internal controls, including any significant changes and improvements thereto. In a dedicated session, we discussed the company's IT and cybersecurity initiatives in depth. For more information on risk management and the company's business control framework, refer to chapter 12, Risk factors and risk management, of this Annual Report.

- **M&A**
In March 2020, the company completed the acquisition of Cooper Lighting strengthening its position in the North American lighting market. Throughout the year, the Supervisory Board discussed the performance and integration of Cooper Lighting and other recent acquisitions, such as WiZ Connected and the 51% stake in Klite Lighting (both completed in 2019). We also paid specific attention to matters relating to the Cooper Lighting acquisition, such as the purchase price allocation assessment and the inclusion of the Cooper Lighting figures in the company's overall financials. As part of our standing agenda, we also discussed other pending and potential acquisitions and divestments.

We had planned for the Supervisory Board to visit the Cooper Lighting facilities in September 2020, though this was not possible due to the COVID-19 situation and travel restrictions. Instead, the Cooper Lighting management team presented Cooper Lighting to the Supervisory Board via a videoconference and the visit is envisaged to take place in 2021 if circumstances allow.

- **Debt financing and deleverage**
  In January 2020, the company refinanced its term loans of EUR 740 million and USD 500 million, which would mature in May 2021, and its revolving credit facility of EUR 500 million. In September 2020, the company repaid EUR 350 million of the term loans under the new financing facilities. The Supervisory Board discussed and approved the new financing facilities and the subsequent deleverage.

  The Supervisory Board also approved the issue of Eurobonds. The company issued these Eurobonds in May 2020 to refinance the bridge loan that was used to finance the acquisition of Cooper Lighting.

- **Capital Markets Day and investor relations**
  In December 2020, Signify organized its first Capital Markets Day. The Supervisory Board was involved in the preparation hereof.

  From time to time, management updated us on the company's share price development and analyst recommendations, interactions with shareholders and analysts as well as updates in the shareholder base.

- **Capital allocation policy**
  We reviewed the capital allocation policy of the company. In this context we also discussed expectations related to cash generation, dividend distributions, return of the contribution to employees who participated in the solidarity program, investments in innovation and M&A, share repurchases to cover obligations arising from Signify's long-term incentive and other employee share plans, deleverage as well as implications for credit ratings.

- **Talent management**
  The company's human resources department presented its annual update on talent management to us. We also discussed the performance and succession planning of employees who are in key positions.

8.3 Key activities of the Supervisory Board committees in 2020

8.3.1 Audit Committee

Our Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities for, amongst other matters, the quality and integrity of the company's financial statements, the internal business controls and risk management systems, the internal and external audit as well as monitoring compliance.

Jill Lee chaired the Audit Committee until she stepped down from the Supervisory Board on her own request on July 31, 2020. Thereafter, Pamela Knapp took over as Chair. Gerard van de Aast and Eelco Blok are, and were throughout 2020, the other members of this Committee.

The Audit Committee met five times in 2020, upon the conclusion of each quarter and additionally in December. A combined meeting of the Supervisory Board and the Audit Committee took place in February 2020 to review and approve the company's 2019 annual report. The Audit Committee reported its findings to the full Supervisory Board after every meeting. The CEO, CFO, Group Controller, Chief Accountant, Head of Internal Audit, Chief Legal Officer and external auditor (Ernst & Young Accountants LLP) generally attend Audit Committee meetings. At the end of each meeting, the Committee holds a private session separately with the external auditor, without members of management being present. The Head of Internal Audit is invited to this private session from time to time. The Committee Chair also has regular contact with the CFO, the Head of Internal Audit and the external auditor outside of Committee meetings.

In 2020, the Audit Committee received well prepared information from management and the external auditor on a variety of topics related to the company's financials, reporting policies, controls, practices, and compliance. As part of its standing agenda, the Audit Committee discussed the company's periodic financial statements and related press releases. It also discussed with the Head of Internal Audit and the Board of Management major areas of risk and other attention points as identified through internal audits, and progress and effectiveness of associated mitigation actions. With the Chief Legal Officer and the Board of Management, the Committee discussed developments in larger legal cases together with the related provisions as well as pending material investigations together with actions taken. With the Head of Tax and the Board of Management the Committee discussed current tax matters, including the valuation of deferred tax assets and liabilities for uncertain tax positions. The Head of Compliance presented its annual compliance report over the past year, and key observations were discussed with the Committee.

The Audit Committee reviewed the internal audit plan and programs for each quarter. It also reviewed the internal audit charter, yearly audit plan (its scope and materiality, coverage in relation to that of the external audit plan), as well as the functioning, budget, staffing, independence and organizational structure of the internal audit function. With the Board of Management and the Head of Internal Audit, the Committee discussed the company's business control framework and any significant changes and improvements thereto; this framework sets the standard for risk management and business controls in the company.
The effectiveness of the internal controls was discussed, and the results of the annual test concluded positive. The Audit Committee also reviewed its own charter.

In 2020, the Audit Committee also dedicated time to the following matters:

- **Re-appointment external auditor and rotation lead auditor**
  Upon proposal of the Audit Committee and subsequently the Supervisory Board, the 2020 AGM re-appointed Ernst & Young Accountants LLP for a period of three years (2020 – 2022). As the lead auditor in charge of Signify must rotate every five years, a new lead auditor from Ernst & Young Accountants LLP will oversee the Signify account as of the financial year 2021.

- **Annual impairment tests**
  The Committee discussed the annual impairment test performed in Q2 (trigger based) and in Q4 (annual test), specifically looking at the COVID-19 impact scenarios and future projections. The tests showed no impairment.

- **ESEF**
  The new European Single Electronic Format (ESEF) reporting requirements were discussed. Mid-January, the Dutch government announced that the Netherlands makes use of the possibility to extend the introduction of these rules by one year. Given that Signify was already well advanced in the preparations of publishing and filing its annual report in compliance with the new rules and in xHTML format, the company decided to already comply on a voluntary basis as of this year's annual report. In addition, the PDF format of the annual report will be made available on the company's website.

- **Interaction with external auditor**
  The Audit Committee reviewed and discussed the key audit matters identified for 2020 by Ernst & Young Accountants LLP, which are for the 2020 financials: revenue recognition, valuation of goodwill, valuation of deferred tax assets and liabilities for uncertain tax positions, acquisition of Cooper Lighting; and for the sustainability information: reporting criteria sustainable revenues, and estimates and assumptions concerning the calculated impact of avoided CO_2 as presented in the value creation model. These topics are addressed in more detail either in this Supervisory Board Report or in other parts of the Annual Report to which they relate.

  Regarding the company's external auditors, the discussions also covered matters related to accounting policies, financial risks, and compliance with accounting standards, as well as compliance with (financial) legal requirements and relevant legal proceedings and related provisions. Other areas of Audit Committee review included the proposed external audit scope, approach, fees and the independence of the external auditor. The committee also reviewed the professional fitness and good standing of the external auditor and its engagement partners. For information on the fees of Ernst & Young Accountants LLP, refer to note B, Audit fees, to the Company financial statements.

8.3.2 Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee assists the Supervisory Board by preparing the selection criteria and appointment procedure for members of the Board of Management and the Supervisory Board, periodically assessing the succession planning for the individual members of these boards and the interviews of potential candidates. The Committee also supervises the policy on the selection and appointment of certain other key management positions. The Committee is charged with reviewing the company's corporate governance (for more information on corporate governance refer to chapter 10, Corporate governance, of this Annual Report). The performance evaluation of the Board of Management and the Supervisory Board is led by the Committee.

In 2020, Arthur van der Poel (Chair), Eelco Blok, Rita Lane and Frank Lubnau were members of this committee. As of January 2021, Eelco Blok stopped being a member of this Committee when he joined the Supervisory Board's Digital Committee.

The Committee met seven times in 2020 and reported its findings to the full Supervisory Board after each meeting. The CEO and Chief Legal Officer generally attend the Committee's meetings. The Committee Chair has regular contact with the CEO and the Chief Legal Officer/General Secretary. Various topics are often prepared among the Committee members ahead of a Committee meeting, resulting in efficient decision-making during the meetings.

As part of its standing agenda, the Committee discussed changes in key personnel positions, succession planning and the functioning of key personnel as well as the Supervisory Board's performance evaluation procedures. In addition, the Committee discussed developments in the Dutch corporate governance landscape and the company's corporate governance structure. It also discussed the Committee's own charter.

In 2020, the Committee specifically dedicated time to the following matters:

- **Composition Board of Management**
  The 2020 AGM re-appointed CEO Eric Rondolat and appointed Maria Letizia Mariani to the Board of Management, both for a term of four years. When the company's CFO Stéphane Rougeot left in March 2020, the Supervisory Board asked René van Schooten to stay for another year to take up the role as CFO on an interim basis, until a new CFO had been found. The 2020 AGM re-appointed René to the Board of Management for one year. The Supervisory Board, upon preparation of the Committee, started a selection process to find a new CFO and Javier van Engelen joined the company in June 2020. He was appointed to the Board of Management by the Extraordinary General Meeting of Shareholders in October 2020 for a term of four years.

The Supervisory Board is pleased with the continuity and strong performance that CEO Eric Rondolat brings, and with the strengthening of the team by Javier van Engelen as new CFO and Maria Letizia Mariani coming from within the company. René van Schooten handed over the CFO role to Javier in October, relinquished his position on the Board of Management as of January 1, 2021 and will stay as an advisor to the board until the end of May 2021. The Supervisory Board considers the Board of Management to operate as a strong team, and is very positive about how the team managed the COVID-19 crisis, which was evidenced by the company's performance over 2020.

- **Composition Supervisory Board**
  In 2020, the Supervisory Board welcomed Pamela Knapp and Frank Lubnau as new members. Pamela Knapp brings knowledge and experience in general management and in particular in financial and economic aspects of international business, and was therefore well positioned to succeed Jill Lee as Audit Committee Chair, after Jill stepped down from the Supervisory Board as per end July 2020. The Supervisory Board recommended Frank Lubnau particularly in view of his extensive experience and knowledge in the digital domain. The 2020 AGM appointed Pamela Knapp and Frank Lubnau, and also re-appointed Arthur van der Poel and Rita Lane, each for a period of four years.

  The above appointments and re-appointments to the Board of Management and Supervisory Board were the result of an assessment and selection process prepared and led by the Committee. In doing so, the Committee takes account of the desired board profile, including its diversity policy and expertise and experience as well as the desired board size. For the re-appointments, the respective performance and board evaluations are also taken into consideration. As Arthur van der Poel and Rita Lane are both members of this Committee, neither took part in the decision-making process on the proposals of their respective re-appointments.

- **Board size and profile, including diversity**
  We believe that it is of strategic importance that our Board of Management and Supervisory Board are composed in line with Dutch and international corporate governance best practices and that they have the expertise needed for a good understanding of current affairs and longer-term risks and opportunities related to the company's business, taking into account our objectives that promote diversity at board level. The Committee reviewed and made a proposal to the Supervisory Board for updating the boards' profile as well as the Supervisory Board skills and expertise matrix to reflect the areas that the Committee and Supervisory Board regard to be most relevant for Signify to address today's needs and those anticipated for the future.

  The composition of the Supervisory Board was also addressed in the annual performance evaluation (see also below). The Supervisory Board observed that its current size is small, which among its members is generally seen as positive. Especially in view of the relevant, diverse, and complementary competencies and experience of the individual members, the Supervisory Board currently regards its size and composition to be adequate to perform its duties. The Committee will continue to periodically assess its size and composition, including the desired diversity.

Supervisory Board Skills and Expertise matrix

Indicating fields in which our Supervisory Board members have a particular skill or expertise

Skill/experience item	Arthur van der Poel	Gerard van de Aast	Eelco Blok	Pamela Knapp	Rita Lane	Frank Lubnau
CEO role	√	√	√			
Industrial experience	√	√		√	√	√
Finance, expert level		√		√		
Sustainability	√			√		
Projects/infrastructure		√				
Business transformation	√	√	√	√		√
Digital business processes		√	√	√	√	√
IT, cybersecurity			√		√	√
Technology/innovation	√		√		√	√
Diversity elements: Gender, age, nationality	Male 72 Dutch	Male 63 Dutch	Male 63 Dutch	Female 62 German	Female 58 American	Male 51 German

Both the Board of Management and the Supervisory Board comprise of two-third men and one-third women, in line with the company's diversity objectives that at least 30% are men and at least 30% are women on the board. For more details on the profile including diversity of the Board of Management and Supervisory Board, please refer to chapter 10, Corporate governance, of this Annual Report. For more information on diversity and inclusion in the company, please refer to sub-section 16.3, Diversity and inclusion, of this Annual Report.

8.3.3 Remuneration Committee

The Remuneration Committee assists the Supervisory Board by, amongst other matters, reviewing and preparing remuneration policies for the Board of Management and Supervisory Board, remuneration proposals for individual members of the Board of Management and other key management positions as well as proposals for targets relevant for the variable compensation of members of the

Board of Management and the review of the performance thereof.

In 2020, Gerard van de Aast (Chair), Arthur van der Poel and Rita Lane were members of this Committee. As of January 2021, Pamela Knapp joined this Committee. As of the same date, Rita Lane stopped being part of this Committee when she joined the Supervisory Board's Digital Committee.

In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert. Currently, no member of the Remuneration Committee is a member of the management board of another listed company.

The Remuneration Committee met four times in 2020 and reported its findings to the full Supervisory Board after each meeting. The committee also consulted with the CEO, the Board of Management and certain other key management employees. Following those consultations, the Committee prepared decisions and advised the Supervisory Board.

As part of the standing agenda, the Remuneration Committee discussed, among other matters, the interim and final performance results on variable remuneration components for the past periods, target setting for variable remuneration for the upcoming periods, base salary levels for the Board of Management as well as disclosure in the remuneration report.

In 2020, some changes were being proposed to the remuneration policy for the Board of Management. The remuneration policies for the Board of Management and the Supervisory Board were proposed to and adopted by the 2020 AGM. The Committee discussed and analyzed the AGM advisory vote on the 2019 remuneration report.
As part of the analysis, the Committee Chair engaged with stakeholders to obtain feedback on the remuneration report and views on executive pay, especially in these extraordinary times, and reported back the findings to the Committee and the Supervisory Board.

Please also refer to chapter 9, Remuneration Report, of this Annual Report, for further information on the remuneration policies for the Board of Management and the Supervisory Board and how these was implemented in 2020.

8.3.4 Digital Committee

In view of the importance of digitalization especially in the coming few years (see also above), the Supervisory Board established the Digital Committee as of January 1, 2021.

The Digital Committee assists the Supervisory Board by, amongst other matters, reviewing the company's digital strategy and roadmap, digital objectives and performance and the governance for deciding on digital prioritization. Frank Lubnau (Chair), Eelco Blok and Rita Lane are members of this committee.

8.4 Performance evaluation

We performed an evaluation of the performance of the Board of Management and of the Supervisory Board and its committees in 2020. The Board of Management performed a self-evaluation of its functioning and the functioning of its individual members. The results of this evaluation were reported to the Chair and discussed in the Supervisory Board.

The objective of our Supervisory Board self-evaluation is to gain better insight into the functioning of the Supervisory Board, to identify strengths that we want to keep and to identify matters that the Supervisory Board or the company can improve.
Last year, our self-evaluation was facilitated by an external party. Building on last year's observations together with relevant developments in 2020, we prepared a new questionnaire. The questionnaire addressed, among other matters, the focus of discussions during our meetings, strategic direction and discussions, culture, the functioning of the committees, the relationship between the Board of Management and the Supervisory Board, the views on the Supervisory Board as a team and how it conducted itself, learnings from the COVID-19 crisis as well as the desired focus in the future.

The members of the Supervisory Board and the Board of Management as well as the General Secretary to the boards completed the questionnaire. Following an evaluation of the questionnaire by the Corporate Governance and Nomination & Selection Committee, observations were discussed in a plenary session with the Supervisory Board only. Hereafter, one-on-one discussions take place between the Chair and the individual Supervisory Board members, and with the Vice Chair on the functioning of the Chair. The responses to the questionnaire were shared with all respondents together with a proposal for follow-ups.

The self-evaluation has once again provided valuable insights on how the Supervisory Board operates as a team and where the Supervisory Board and the company can improve. In 2020, the Supervisory Board experienced a well operating board.
The Supervisory Board meetings were found to be interesting, well prepared, in good spirit and with frank and open discussions, in which everybody played his or her own role. The evaluation brought practical insights, for example on how to discuss topics in an even more meaningful and efficient manner. In addition, the evaluation identified topics for further discussions, such as growth strategies of the company and digitalization, and showed general support to have culture become a fixed annual topic on the agenda of the Supervisory Board.

8.5 Financial statements 2020 and dividend

Signify's Consolidated and Company financial statements for 2020, as prepared by the Board of Management, have been audited by Ernst & Young Accountants LLP as independent external auditor appointed by the General Meeting of Shareholders. Its report has been included in the Combined independent auditor's report. We have approved these financial statements.

We recommend to the General Meeting of Shareholders to adopt the financial statements for 2020. We likewise recommend to shareholders that they adopt the proposals by the Board of Management (a) to declare a cash dividend of EUR 1.40 per ordinary share from the 2020 net income, and (b) to declare an extraordinary cash dividend of EUR 1.35 per share from the freely distributable reserves.

8.6 Appreciation

It has been an extraordinary year. We would like to thank the Board of Management and all employees for all the additional effort, vision and resilience that was required and given to the company in 2020, with a robust performance as a result.

We would also like to express our sincere gratitude to René van Schooten for his rich contribution to Philips Lighting and later to Signify over the past 20+ years. René has been a valued member of the company's Board of Management from its IPO and twice took up the role as CFO on an ad interim basis. We highly appreciated his loyalty and in-depth knowledge of the company's business.

Finally, we would like to thank Jill Lee, who stepped down from our Supervisory Board at the end of July 2020, for her valuable guidance and counsel to Signify during a significant period of transition of the company.

February 23, 2021

Supervisory Board
Arthur van der Poel
Gerard van de Aast
Eelco Blok
Pamela Knapp
Rita Lane
Frank Lubnau

9 Remuneration report

9.1 Letter from the Remuneration Committee Chair

On behalf of the Supervisory Board, I am pleased to present the 2020 remuneration report. This report includes a detailed explanation of the current remuneration policies for the Board of Management and the Supervisory Board. The effectuation of these policies in 2020 is discussed in part 9.2 and 9.3 of this remuneration report.

This was a challenging year, and yet we are very proud of how the company performed. The company acted quickly as COVID-19 began to engulf the world, and employees focused well to deliver for our shareholders. The Remuneration Policy as put forth during the AGM in 2020 in alignment with the Shareholder Rights Directive II was supported by our shareholders. Over the course of 2020 we engaged with key stakeholders and the Dutch Works Council to understand their views on remuneration in general and to solicit feedback on the remuneration report of Signify. These interactions were very productive, leading to a good dialogue and provided valuable feedback for inclusion in our 2020 remuneration report.

Services agreements new Board of Management members

We welcomed to our Board of Management two new members in 2020. We are pleased that one board member, M.L. Mariani, came from within the company, which ilustrates our continued focus on being a strong talent-building company. At the same time, we were pleased to welcome a new Signify colleague, F.J. van Engelen Sousa, who adds to the broad range of skills and experience within the Board of Management. The remuneration of the two new board members was based on competitive benchmarks and the Remuneration Policy for the Board of Management. As F.J. van Engelen Sousa was hired externally he was provided with an attractive remuneration package which includes a sign-on award of shares in the form of restricted share units. This sign-on award is to address potential value that he may leave behind in his former role in either stock or cash. This award has a holding period of 5 years from grant date and includes a specific clawback clause primarily focused on him being employed for at least 3 years. Finally, as F.J. van Engelen Sousa and his family now live abroad, additional relocation arrangements in line with our relocation policy were provided to support him and his family's transition to The Netherlands.

Signify's performance In 2020

Signify had a very strong performance in 2020 given the volatility of the year. Our industry was severely impacted by the pandemic as is reflected in the decline in the comparable sales growth results. However, profitability and free cash flow as a percentage of sales were improved against this backdrop of a decline in demand. Relative to the targets set at the beginning of 2020, the results on the key financial measures as well as the achievement against individual targets resulted in a below target outcome on the annual incentive for the Board of Management.

Signify announced major milestones in our sustainability program: carbon neutrality was achieved in 2020 and 100% renewable electricity is now used. In addition, Signify has over performed on most of its other commitments in the 2020 Brighter Lives, Better World program, inclusive of zero waste to landfill for our manufacturing sites. This positive financial and non-financial performance in free cash flow, relative total shareholder return and sustainability is reflected in the over achievement of the conditions for vest of the 2018 long-term incentive plan. Maintaining this ambitious drive beyond carbon neutrality, the company announced the Brighter Lives, Better World 2025 program which aims to double the positive impact on the environment and society and will drive future targets in the long-term incentive plan of Signify.

Company measures COVID-19 in 2020

The company acted quickly and anticipated the potential impact of the coronavirus on the health of employees and the potential impact to the business.

Action was immediately taken to reduce the fixed cost base. A key Signify value is Greater Together, and it was in this spirit that a number of temporary measures that impacted all Signify stakeholders were taken:
- The Board of Management and Leadership Team took a 20% salary reduction in Q2 2020.
- The Supervisory Board members took a 20% reduction on Q2 2020 fees.
- All employees were asked to voluntarily support a 20% work time reduction with a pro-rata pay adjustment in Q2 2020.
- An external hiring freeze was implemented to maximize the internal opportunities of our employees.
- Dividends were suspended for our shareholders in 2020.

Ultimately as announced in January 2021, Signify was able to return contributions to employees who voluntarily participated in the 20% work time reduction. However, this did not apply to the Board of Management and Supervisory Board members for whom no returns were made. Additionally, an extraordinary dividend of EUR 1.35 per share is proposed. The ability to provide a return to employees and propose an extraordinary dividend is a testament to the excellent stewardship of the company by the Board of Management and the Leadership Team over the course of a very volatile 2020.

Statement of voting in 2020 Annual General Meeting of Shareholders

Signify's 2020 Annual General Meeting of Shareholders was held on May 19, 2020.

The Remuneration Policies for the Board of Management and the Supervisory Board were both well approved by shareholders. The voting results for both policies as well as for the 2019 remuneration report are reflected in the following table.

	Remuneration Policy Board of Management		Remuneration Policy Supervisory Board		Remuneration report 2019	
Votes	**Number**	**%**	**Number**	**%**	**Number**	**%**
For	75,806,623	94.10%	79,581,117	98.78%	67,663,076	84.11%
Against	4,755,094	5.90%	980,453	1.22%	12,780,134	15.89%
Abstain	14,624		14,771		133,131	
Total votes	**80,576,341**		**80,576,341**		**80,576,341**	

To further understand shareholder feedback on the Signify Remuneration Report 2019, we engaged with several investors, proxy advisors and investor organizations prior to the creation of the Remuneration Report for 2020. We experienced those conversations as very constructive and they have led to improvements in our Remuneration Report. While our LTI reporting was identified by stakeholders as being very comprehensive, our reporting on the annual incentive plan was identified as an area for improvement. We are pleased to have introduced changes to the 2020 report in direct response to this feedback. We trust that stakeholders will experience these changes positively and appreciate the spirit of transparency and continuous improvement which drives them.

Gerard van de Aast
Chair of the Remuneration Committee

9.2 Remuneration Board of Management

Introduction

Signify has a balanced compensation policy for its employees, from our CEO and other members of the Board of Management to all employees worldwide. Our policy aims to stimulate sustainable short- and long-term value creation. Therefore, the performance measures used in the variable compensation components are linked to quantitative financial, non-financial and sustainability targets. The remuneration policy also serves a communication purpose as it clearly stipulates and supports a common approach to deliver on the company's strategy.

Signify's value creation model:

The value created by Signify goes beyond financial performance alone. Our approach is to optimize value through financial, environmental and social resources. Our focus on environment and societal implications of doing business is evidenced in our Brighter Lives, Better World 2025 program. This program links to our long-term Incentive plan and ensures that the interests of the organization, society at large and our impact on the environment in which we live are key elements In how Signify delivers long-term value creation to shareholders. Our activities and our way of doing business impact customers, employees, investors and society at large. Signify expresses these impacts in monetary terms in chapter 3.3 Value creation model, of this Annual Report.

The current remuneration policy for the Board of Management and for the Supervisory Board was adopted by the Annual General Meeting of Shareholders (AGM) in 2020 with respectively 94.10% and 98.78%. The effectuation of these policies in 2020 is discussed in part 9.2 and 9.3 of this remuneration report.

The report included in this chapter constitutes the remuneration report within the meaning of Section 2:135b of the Dutch Civil Code.

The following principles apply for the remuneration policy of the Board of Management:
- Signify's remuneration policy aims to attract, reward and retain qualified leaders to pursue the company's purpose and long-term strategic objectives, whilst taking the interest of all company's stakeholders into account.
- Remuneration levels are to be competitive and in line with the market practice of comparable companies and support a pay-for-performance philosophy with a significant proportion of remuneration at risk.
- During the policy design and review process, stakeholder feedback and legal provisions, including the Dutch Corporate Governance Code are taken into consideration.

Remuneration Components

The compensation package for the members of the Board of Management consists of the following fixed and variable components:
- base salary
- annual cash incentive
- long-term equity-based incentive
- pensions and other benefits

The combination of a member's base salary, annual cash incentive and long-term equity-based incentive, together referred to as the "total direct compensation", is targeted around the median level of a representative labor market peer group and benchmarked on a regular basis.

This peer group consists of 50% Dutch headquartered cross-industry companies that are included in the AEX or AMX, and 50% European sector specific companies.

As of January 2020, the labor market peer group consists of the following 14 companies:

Labor Market Peer Group

Aalberts	DSM	Prysmian Group
AkzoNobel	KPN	Rexel
ASML	Legrand	Rheinmetall Group
BAM	Nexans	Siemens Gamesa
Boskalis	Osram	

The Supervisory Board reviews the peer group on a regular basis and may adjust to ensure that the companies in the group remain relevant peers.

Summary of Remuneration

<table>
<tr><th></th><th></th><th colspan="2">Policy Summary</th><th colspan="2">Application in 2020 Summary</th></tr>
<tr><td rowspan="3">Total direct compensation</td><td>Base salary</td><td colspan="2">• The Supervisory Board determines the base salary and may, at its discretion, apply an increase.
• The base salary may not be adjusted with a higher percentage than a collective labor agreement (CLA) increase agreed for the CLA population in the Netherlands.</td><td colspan="2">Base salary as follows:
E.H.E. Rondolat € 901,703
C.L. van Schooten € 589,057
F.J. van Engelen Sousa € 590,000
M.L. Mariani € 570,000</td></tr>
<tr><td>Annual cash incentive</td><td>CEO:
On-target: 80%
Maximum: 160% of base salary

80% is related to financial performance measures and focuses on the realization of strategic business objectives.
20% is related to team and individual performance measures.</td><td>Other BoM members:
On-target: 60%
Maximum: 120% of base salary</td><td colspan="2">Measures:
• Comparable Sales Growth (30%)
• Adjusted EBITA (30%)
• Free Cash Flow (20%)
• Team/individual (20%)

Actual pay-out: In % of target:
E.H.E. Rondolat 87.1%
C.L. van Schooten 87.1%
F.J. van Engelen Sousa 77.1%
M.L. Mariani 87.1%</td></tr>
<tr><td>Long-term equity based incentive</td><td>CEO:
Annual on-target grant value:
100% of base salary

Key features:
• Granted in performance share units (PSUs) only.
• Conditionally granted annually.
• Vesting of performance shares conditional upon achievement of performance conditions measured over a period of three financial years.
• Performance measured using four performance measures equally weighted: i) relative total shareholder return (25%), ii) free cash flow (25%), iii) return on capital employed (25%) and iv) sustainability (25%). This applies to grants from 2020.
• For LTI grants made in 2018 and 2019, the previous performance conditions continue to apply: i) relative total shareholder return (40%), ii) free cash flow (40%) and iii) sustainability (20%).
• Pay-out per performance measure can vary between 0% and 200%.
• In case of external hires, a restricted share units (RSUs) based sign-on award can be offered.</td><td>Other BoM members:
Annual on-target grant value:
80% of base salary</td><td colspan="2">2020 grant:
E.H.E. Rondolat 45,932 PSUs
C.L. van Schooten 24,004 PSUs
F.J. van Engelen Sousa 0 PSUs and 9,939 RSUs
M.L. Mariani 23,228 PSUs

• Conditional on continued employment.

• Holding requirement (part 9.2.8 of this remuneration report):
CEO: 300% of base salary
Other BoM members: 200% of base salary
• Additional requirement to comply with holding requirements under the Dutch corporate governance code (total 5 years from grant date)</td></tr>
</table>

		Policy Summary	Application in 2020 Summary	
Other compensation	**Pension benefit**	• Collective defined contribution plan up to the maximum pensionable salary (2020: EUR 110,111). • Gross pension allowance of 25% of the base salary exceeding the maximum pensionable salary. • Members of the Board of Management can, on a voluntary basis, choose to participate in a net pension arrangement by investing the net (after tax) amount. • Temporary gross transition allowance for a maximum period of eight years, offsetting historical plan changes.	E.H.E. Rondolat C.L. van Schooten F.J. van Engelen Sousa M.L. Mariani	Accumulated annual pension as of Dec 31, 2020: € 40,393 € 231,636 € 882 € 1,029
	Additional benefits	Additional benefits, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements.	CEO:	Other BoM members:
		Car allowance gross per annum (or lease car):	€ 36,960	€ 31,560
		Entertainment expense allowance net per annum:	€ 23,920	€ 6,000
		Representation allowance net per annum:	€ 6,800	
		Relocation allowances:	F.J. van Engelen Sousa	
			One-off net housing allowance:	€ 35,000
			One-off net relocation allowance:	€ 12,000

The table below reflects the total remuneration as well as the remuneration costs of each of the members of the Board of Management in 2020.

Remuneration and remuneration costs of individual members of the Board of Management in EUR

	Base compensation/ salary[1]	Annual incentive[2]	Performance shares costs[3]	Restricted share rights costs[4]	Pension allowances	Pension scheme costs	Other compensation[5]	Termination benefits[6]	Total remuneration costs
2020									
E.H.E. Rondolat	850,368	628,307	1,411,630	–	293,352	24,378	37,300	–	3,245,335
C.L. van Schooten	555,522	307,841	729,252	–	184,820	24,378	33,445	589,057	2,424,315
F.J. van Engelen Sousa[7]	321,818	150,114	–	29,750	65,439	12,060	20,572	–	599,753
M.L. Mariani[8]	337,476	184,687	601,473	–	70,717	14,070	17,068	–	1,225,491
S.L.A. Rougeot[9]	95,000	–	(185,279)	–	19,162	4,271	6,623	–	(60,223)
	2,160,184	**1,270,949**	**2,557,076**	**29,750**	**633,490**	**79,157**	**115,008**	**589,057**	**7,434,671**
2019									
E.H.E. Rondolat	871,000	522,600	1,041,725	–	320,356	26,380	40,043	–	2,822,104
S.L.A. Rougeot	570,000	256,500	496,252	–	115,602	26,380	104,853	–	1,569,587
C.L. van Schooten	569,000	256,050	536,275	–	203,588	26,380	24,291	–	1,615,584
	2,010,000	**1,035,150**	**2,074,252**	**–**	**639,546**	**79,140**	**169,187**	**–**	**6,007,275**

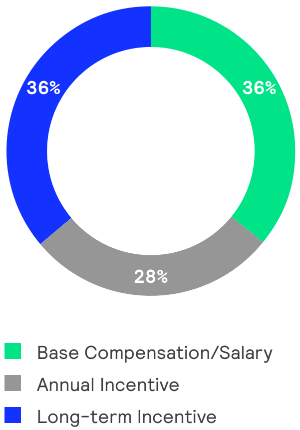
1 Base compensation/salary includes 20% COVID-19 reduction in Q2 2020.
2 The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.
3 Costs of performance shares (2020: Signify and 2019: Signify and Koninklijke Philips N.V.) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.
4 Costs of restricted share rights are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date and concerns the sign-on grant of EUR 300,000 for F.J. van Engelen Sousa.
5 The stated amounts mainly concern (part of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a part of an allowance can be considered as (indirect) remuneration (for example, private use of the company car or car allowance), then such part is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. Net allowances are not included.
6 As the company elected not to renew the services contract of C.L. van Schooten after the end of term in May 2021, as per his services contract (which is published on the company's website), he will receive a lump sum payment of one time the annual base compensation/salary (gross amount of EUR 589,057), which is payable in June 2021. An additional tax levy, pursuant to Article 32bb of the Dutch wage tax act, will be payable by the company over the total remuneration of C.L. van Schooten, including this lump sum payment, in the year of his termination (estimated at EUR 543,883).
7 Hired per June 15, 2020 and appointed member of the Board of Management on October 27, 2020 EGM. Remuneration costs present the entire period functioning as CFO as of June 15, 2020.
8 Appointed member of the Board of Management in May 20, 2020 AGM. Remuneration costs present the period functioning as member of the Board of Management as of May 20, 2020.
9 Stepped down as member of the Board of Management per March 1, 2020.

All remuneration was paid in accordance with the remuneration policy.

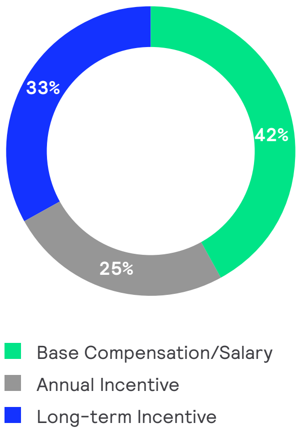
9.2.1 Mix of remuneration elements

To support the remuneration objectives, the policy includes significant variable components in the form of an annual (cash) incentive and a long-term equity based incentive of performance shares. As a result, a significant proportion of pay is ‘at risk’ through variable incentives. The chart below shows the relative on-target value of fixed versus variable compensation with 58% - 64% of compensation being variable in nature.

CEO



Other BoM members



The table below shows the actual remuneration mix in 2020.

	Fixed [1]	Variable [2]	Proportion fixed/variable
E.H.E. Rondolat	1,205,398	1,698,394	42%/58%
C.L. van Schooten	798,165	866,851	48%/52%
F.J. van Engelen Sousa [3]	419,889	150,114	74%/26%
M.L. Mariani [3]	439,331	184,687	70%/30%

1 Base compensation/salary, pension allowances, pension scheme costs, other allowances as reported in the table ‘Remuneration and remuneration costs of individual members of the Board of Management’ under 9.2.
2 Annual incentive realized as reported in the table ‘Remuneration and remuneration costs of individual members of the Board of Management’ under 9.2 and Long-term incentive value at vesting date in 2020 as reported in the table ‘Performance shares 2017 - 2020’ under 9.2.5.
3 The variable remuneration for F.J. van Engelen Sousa and M.L. Mariani does not include an LTI vesting value and therefore the mix fixed/variable differs from the mix for the other Board of Management members.

Scenario analyses are prepared regularly to estimate future pay-out levels as input to determine the IFRS costs and any hedging strategy that might be employed. Furthermore, estimated future remuneration levels are assessed against the potential achievement of strategic objectives. Based on the scenario analyses performed, the Supervisory Board has concluded that the policy supports the pay-for-performance philosophy.

9.2.2 Base salary

The base salary compensates for the individual’s experience, skills, duties, responsibilities and the contribution of the individual within Signify. The Supervisory Board determines the base salary and may adjust the base salary for example following the results of benchmark studies and to ensure alignment between members of the Board of Management. Absent any adjustment of the base salary, it follows the (collective and merit) increase as agreed for the CLA population in the Netherlands. The Supervisory Board regularly reviews the total direct compensation (including base salaries).

The annual compensation of the members of the Board of Management was reviewed in 2020 in line with the regular remuneration review. The Remuneration Committee considered the input of the Board of Management members in setting their pay levels.

For 2020 it was decided to adjust the base salary levels for the members of the Board of Management by 2.5% by January 1, 2020 and by 1% by April 1, 2020. The April 1, 2020 increase, as per COVID-19 measures, was delayed to October 1, 2020.

New base salaries Board of Management in 2020 (in EUR)

	January 1, 2020 (+ 2.5%)	October 1, 2020 (+ 1%)
E.H.E. Rondolat	892,775	901,703
C.L. van Schooten	583,225	589,057

Maria Letizia Mariani was appointed member of the Board of Management during the AGM on May 20, 2020 and her salary was set at EUR 570,000. Javier van Engelen was hired per June 15, 2020 and appointed member of the Board of Management during an EGM on October 27, 2020. His salary was set at EUR 590,000 as from June 15. 2020. Stéphane Rougeot’s base salary was not increased for 2020, given that he terminated his relationship with Signify per March 1, 2020.

9.2.3 Variable remuneration

The variable remuneration of the members of the Board of Management consists of an annual cash incentive and a long-term equity-based incentive.

The design of the incentives aims to achieve a balance between short-term objectives and long-term value creation and sustainable performance. Variable pay is based on both financial and non-financial performance measures. In selecting performance measures, their respective weights and targets for a performance period, the following is considered:

- Performance measures are selected based on relevance to the company's strategy.
- The company's strategy determines the targets and intervals for the performance measures.
- Targets are set ambitiously yet realistically, taking the company's risk appetite into account.
- Alignment with stakeholders' interests and expectations is essential.

The Supervisory Board determines the target for each of the performance measures of the annual cash incentive and the long-term equity-based incentive. The target definition for these variable remuneration components includes target intervals and correlating pay-out schemes, being defined in incremental steps in performance and respective pay-out.
In addition, a minimum threshold for the achievement of financial performance measures applies, below which there will be no pay-out. Following the end of the relevant performance period, the Supervisory Board will assess the actual performance relative to the targets set. On that basis, the Supervisory Board will, at its discretion, determine the achievement per performance measure and target.

9.2.4 Annual cash incentive

Members of the Board of Management are eligible for an annual cash incentive. The annual incentive is designed to reward the achievement of annual financial and operational objectives and personal performance. The purpose is to ensure alignment with the company's annual business plan setting the strategic priorities for that year, which in turn contribute to the company's long-term objectives.

The Supervisory Board can annually select two or three financial performance measures from the following list, and determine the weighting per performance measure: growth (such as comparable sales growth), profit (such as adjusted EBITA or net income), cash flow (such as average working capital or free cash flow) and investment return (such as return on capital employed).

The possibility to annually select financial performance measures from the above list gives the Supervisory Board a certain level of flexibility to ensure continuous alignment of the performance measures with the company's strategy and financial objectives for the mid-term.

The financial performance measures used in the annual incentive to track performance over 2020 were Comparable Sales Growth (measured as a percentage of sales), Adjusted EBITA (measured as a percentage of sales) and Free Cash Flow (measured as a percentage of sales). These measures were determined by the Supervisory Board to reflect the best alignment with the company's strategy and financial objectives for the mid-term focusing on profitable growth. The financial targets for 2020 were set within the context of the medium-term objectives of the company at the beginning of the year and did not change over the course of 2020. Pay-out between the financial targets is linear.

The team/individual performance measures are recommended by the CEO and discussed and ultimately approved by the Supervisory Board. For 2020 these measures included employee and customer net promoter scores, operational efficiency, sales growth for new growth engines and progress on the integrations of the acquired companies Cooper Lighting and Klite. Over the course of 2020, mitigating the impact of the COVID-19 virus on the business and the safety of employees became a key team goal for the Board of Management.

Performance achievements 2020

Performance against financial targets are reviewed on a quarterly basis. The assessment of performance under the annual incentive plan is concluded by the Supervisory Board.
No changes were made to the original targets set for the year 2020 because of COVID-19.

For 2020, Comparable Sales Growth was below the threshold of performance resulting in an achievement of 0%. Adjusted EBITA was slightly above the threshold level of performance that was set at the beginning of 2020 and as such results in an achievement of 57.1%. The company outperformed on Free Cash Flow with a result at the maximum level of performance and therefore achievement on this measure is at the maximum of 200%. The Supervisory Board did not apply any discretion to the outcomes of the financial measures.

Finally, the Supervisory Board assessed the achievement of the Board of Management relative to each of their individual goals and their collective team goals. The Supervisory Board was very pleased with the progress and realized synergies of the integrations of Cooper Lighting and Klite. Our acquisition of Cooper Lighting strengthened our position in the attractive North American lighting market. Together with the fast integration of Klite, the synergies created are providing real value and the transfer of business is ahead of plan. In addition, the cash and profit targets have been achieved for Cooper Lighting while the Klite revenue impact is also ahead of target. Good outcomes in the drive to increase operational efficiencies were realized in the form of above target procurement savings, supply chain warehousing and distribution costs, and manufacturing base cost improvements. From a customer first perspective which is core to the business strategy, the Supervisory Board has been pleased with the continued progress in the customer net promoter score from 34 in 2018 to 41 in 2020, despite the challenges this year. From a great place to work perspective, there was a significant change to the operating model to verticalize our operations capabilities and organize more around our customer segments that was extremely well executed and provided immediate tangible results. The employee net promoter score is at an all-time high of 29 at the end of 2020, representing a significant increase from a net promoter score of 20 at the end of 2019.

Finally, and critically for all stakeholders of Signify, the management of the COVID-19 impact on the business was pro-actively managed by the Board of Management. Decisive action was taken to mitigate the impact while ensuring the safety and well-being of employees. While overall sales growth slowed in response to the pandemic, the Board of Management capitalized on the new opportunities that presented themselves as evidenced in the traction of the UVC lighting portfolio. While our industry was severely impacted by the pandemic, the Board of Management was able to improve our profitability and free cash flow as a percentage of sales, even against the backdrop of a decline in demand.

The Supervisory Board reviewed the team and individual objectives and achievements as described above and assessed performance for 2020 as excellent. As a result, the Supervisory Board has determined that the realized performance on this measure was 150%. For F.J. van Engelen Sousa the Supervisory Board allocated a realized performance on this measure of 100% for his positive impact in a shorter time frame on the outcomes as described above.

The summarized outcomes realized on all measures are as follows:

Performance measures	Weighting	Realized	Realized %	Multiple achieved
Comparable sales growth	30%	(12.7)%	0%	**0%**
Adjusted EBITA	30%	10.5%	57.1%	**17.1%**
Free Cash Flow	20%	12.1%	200%	**40%**
Team and individual performance measures [1]	20%	150%	150%	**30%**
Multiple achieved				**87.1%**

[1] The 100% realization on team and individual performances measures for F.J. van Engelen Sousa results in multiple achieved of 77.1%.

The multiple achieved results in the following payout for each Board of Management member:

Annual incentive realization 2020 in EUR

	Annual base		On-target % of annual base		Multiple achieved		Pro rata factor		Realized annual incentive (in EUR)
E.H.E. Rondolat	901,703	x	80%	x	0.871	x	1	=	628,307
C.L. van Schooten	589,057	x	60%	x	0.871	x	1	=	307,841
F.J. van Engelen Sousa [1]	590,000	x	60%	x	0.771	x	0.55	=	150,114
M.L. Mariani [1]	570,000	x	60%	x	0.871	x	0.62	=	184,687

[1] The realized annual incentive reflects the pro-rata amount as of June 15 for F.J. van Engelen Sousa and as of May 20 for M.L. Mariani.

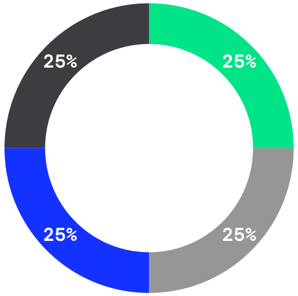
9.2.5 Long-term equity-based incentive

Members of the Board of Management are eligible for a long-term equity-based incentive under the Signify Long-term Incentive Plan (LTI Plan). The objective of the long-term incentive is to link pay with long-term sustainable value creation. In addition to the Board of Management, another approximately 600 employees globally are eligible for participation in a similar long-term incentive plan.

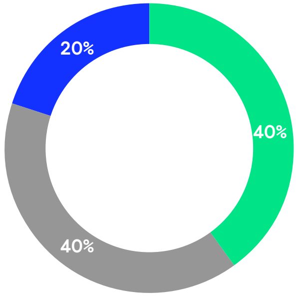
The main characteristics of the long-term incentive plan for the Board of Management are as follows:

- The long-term incentive is granted in performance shares only and granted annually.
- The vesting of performance shares is conditional upon the achievement of performance conditions measured over a period of three financial years and continued Signify employment.
- Performance is measured using four performance measures in 2020: relative total shareholder return (25%), free cash flow (25%), return on capital employed (25%) and sustainability (25%).
- Pay-out per performance measure can vary between 0% and 200%.

Performance measures 2020 grant



Performance measures 2018 and 2019 grant



Relative TSR

The vesting of 25% (40% for 2018 and 2019 grants) of the shares granted is subject to a TSR condition. Relative total shareholder return (TSR) measures the share price growth plus dividends paid over the three-year performance period. Performance is expressed as a percentage. This percentage is compared to the TSR performance of companies included in the peer group specifically compiled for this purpose. The TSR performance is determined for each company in the peer group and the performances are ranked from top to bottom. Signify's position in the ranking, together with the pay-out curve, determines the pay-out level.

As of January 2020, the peer group consists of the following companies:

TSR Peer Group

ABB	Johnson Controls
Acuity Brands	Legrand
Cree	Panasonic
Eaton Corporation	Signify
Fagerhult	Schneider Electric
Hitachi	Toshiba
Honeywell Int.	Zumtobel Group
Hubbel	

The peer group is reviewed on a regular basis to ensure that the companies in the group remain relevant peers. In case a peer needs to be replaced due to a corporate event (merger, acquisition, etc.) the Supervisory Board will ensure that the adjusted peer group remains aligned with the strategic objectives, the geographical spread and the business characteristics of Signify.

Performance-incentive zone for TSR in % of grant value (2020 grant)

Ranking	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1
Payout	0	0	0	0	0	0	0	75	100	125	150	175	200	200	200

Performance-incentive zone for TSR in % of grant value (2018 and 2019 grant)

Ranking	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1
Payout	0	0	0	0	0	60	80	100	120	140	160	180	200	200	200

Free cash flow

The vesting of another 25% (40% for 2018 and 2019 grants) of the annual long-term incentive grant is linked to performance measured by a free cash flow target over the three-year performance period. The targets and intervals around these measures are determined by the Supervisory Board, based on the company's strategic, multi-year plan.

Sustainability

The vesting of 25% (20% for 2018 and 2019 grants) of the annual long-term incentive grant is dependent on how well Signify performs against the targets set with respect to the sustainability condition. The targets and intervals around these measures are determined by the Supervisory Board, based on the company's strategic, multi-year plan. As targets set are usually both qualitative as well as quantitative, set ambitiously and adjusted regularly, the assessment of the performance is at the discretion of the Supervisory Board. The discretionary decision will use tracked performance as input.

Return on Capital Employed

The vesting of the remaining 25% (not applicable for 2018 and 2019 grant) of the annual long-term incentive grant is linked to performance measured by a return on capital employed target over the three-year performance period. The targets and intervals around these measures are determined by the Supervisory Board, based on the company's strategic, multi-year plan.

In 2020, performance shares were granted to the members of the Board of Management. These grants are governed by the Signify long-term incentive plan. The grant is made on the basis of the three months average closing share price preceding the date of grant. In this way, the Signify granting policy ensures mitigation of share price volatility.

The following tables provide an overview of the Signify shares awarded and held by the Board of Management in 2020.

Performance shares 2017-2020

	Grant date	Number of performance shares originally granted	Value at grant date (in EUR)	End of vesting period	Number of performance shares vested in 2020	Value at vesting date in 2020 (in EUR)
E.H.E. Rondolat	2017	31,253	850,000	2020	35,004	1,070,087
	2018	28,103	850,000	2021	n.a.	n.a.
	2019	35,148	871,000	2022	n.a.	n.a.
	2020	45,932	901,703	2023	n.a.	n.a.
C.L. van Schooten	2017	16,325	444,000	2020	18,284	559,010
	2018	14,680	444,000	2021	n.a.	n.a.
	2019	18,370	455,200	2022	n.a.	n.a.
	2020	24,004	471,246	2023	n.a.	n.a.
F.J. van Engelen Sousa	2020	0	0	2023	n.a.	n.a.
M.L. Mariani	2020	23,228	456,000	2023	n.a.	n.a.
S.L.A. Rougeot	2017	16,355	444,800	2020	18,318	559,981
	2018	14,708	444,800	2021	n.a.	n.a.
	2019	18,400	456,000	2022	n.a.	n.a.
	2020	n.a.	n.a.	n.a.	n.a.	n.a.

Number of Signify performance shares (holdings) in number of shares

	January 1, 2020	Awarded 2020	Awarded dividend shares 2020	Realized 2020	December 31, 2020	Vesting date [1]
E.H.E. Rondolat	31,253	-	-	35,004	-	03.02.2020
	28,103	-	-	-	28,103	03.05.2021
	35,148	-	-	-	35,148	01.05.2022
	-	45,932	-	-	45,932	01.05.2023
C.L. van Schooten	16,325	-	-	18,284	-	03.02.2020
	14,680	-	-	-	14,680	03.05.2021
	18,370	-	-	-	18,370	01.05.2022
	-	24,004	-	-	24,004	01.05.2023
F.J. van Engelen Sousa [2]	-	-	-	-	-	01.05.2023
M.L. Mariani	-	23,228	-	-	23,228	01.05.2023
S.L.A. Rougeot	16,355	-	-	18,318	-	03.02.2020
	14,708	-	-	-	-	03.05.2021
	18,400	-	-	-	-	01.05.2022
	-	-	-	-	-	01.05.2023
Performance shares (holdings)	**193,342**	**93,164**	**-**	**71,606**	**189,465**	

[1] Under the long-term incentive plan terms, the vesting date is on the first business day after the publication of Signify's first quarter results in the third anniversary year of the grant date. The dates for 2022 and beyond in this table are for illustrative purposes only.

[2] F.J. van Engelen Sousa has not participated in the long-term incentive plan in 2020 and did not receive a grant in performance shares. He received a EUR 300,000 sign-on grant under the restricted share rights plan.

The three-year performance period for the 2017 performance share grant ended on December 31, 2019. The shares under this grant vested on February 3, 2020 with a vesting percentage of 112%.

At December 31, 2020, the members of the Board of Management held no options on Signify shares.

9.2.6 Pool size

The number of shares to be granted on a yearly basis to all eligible employees under the long-term incentive plan is approximately 1.5 million. The number of shares to be granted depends on the eligible population, the overall at target value and the share price, as the at target value is divided by the three months' average share price preceding the date of grant to determine the number of shares to be granted.

9.2.7 Realization of the 2018 grant

The three-year performance period for the 2018 performance share grant ended on December 31, 2020. The shares under this grant vest on May 3, 2021.

The payout results are as follows.

Relative TSR (40% weighting)

The TSR achieved by Signify during the performance period was 19.5%. This positioned Signify as the 7th ranked company in the peer group shown in the following table, resulting in an achievement of 120%.

January 1, 2018 – December 31, 2020

Rank	Company	TSR Performance
1	Cree	133.0%
2	Schneider Electric	71.4%
3	Eaton Corporation	61.0%
4	Honeywell	44.6%
5	Hubbell	33.2%
6	Johnson Controls	23.7%
7	**Signify**	**19.5%**
8	Legrand	19.4%
9	ABB	7.7%
10	Hitachi	(2.8)%
11	Toshiba	(6.2)%
12	Panasonic	(31.8)%
13	Acuity Brands	(34.7)%
14	Fagerhult	(49.6)%
15	Zumtobel Group	(54.5)%

Free Cash Flow (40% weighting)

The LTI Plan free cash flow pay-out and targets set at the beginning of the performance period were as follows:

	Pay-out	As % of sales
Below threshold	0%	< 5.7 %
Threshold	40%	5.7%
Target	100%	6.4%
Maximum	200%	7.1%

Over the three-year performance period, an amount of EUR 1,546 million free cash was generated (excluding pension de-risking and IFRS 16), representing 8.1% of sales. In light thereof, the Supervisory Board determined the LTI Plan free cash flow achievement as 200%.

Sustainability (20% weighting)

Based on the following LTI Plan sustainability target setting and results over the performance period, the Supervisory Board determined the LTI Plan sustainability achievement as 200%.

	Target 2020	Result 2020
Sustainable revenues	80%	84.1%
LED lamps & luminaires delivered	2 billion (cumulative from 2015)	2.923 billion
Carbon footprint	350 kilotonnes CO_2 (carbon neutral)	260 gross kilotonnes (carbon neutral)
Waste to landfill	100% sites sending zero waste to landfill	100% sites zero waste
Safe & Healthy Workplace	TRC < 0.35	TRC = 0.22
Sustainable Supply Chain	90% performance rate	99% performance rate

In view of the above, the following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2018 grant of performance shares. The Supervisory Board did not apply any discretion in the determination of the performance outcomes.

	Achievement	Weighting	Vesting level
TSR	120%	40%	48%
Free Cash Flow	200%	40%	80%
Sustainability	200%	20%	40%
Total			**168%**

9.2.8 Share ownership guidelines and holding requirement

Under the Signify share ownership guidelines, members of the Board of Management must hold a certain value in shares in the company. These guidelines are designed to further align the interest of the members of the Board of Management (and certain other leaders within Signify) with the interests of its shareholders. For the CEO, the value in Signify shares to be held is 300% of base salary and for the other members of the Board of Management it is 200% of base salary. The guidelines require that all after-tax shares be retained until the required level is met.

In addition, members of the Board of Management shall comply with holding requirements under the Dutch corporate governance code. This effectively means that members of the Board of Management shall hold all after-tax shares received under the long-term incentive plan for a period of at least five years from the date of grant.

Signify Shares held by Board members in number of shares

	December 31, 2019	Holdings as % of base [1]	December 31, 2020	Holdings as % of base [1]
E.H.E. Rondolat	44,000	139.5%	167,772	648.4%
C.L. van Schooten	12,500	60.7%	34,761	205.6%
F.J. van Engelen Sousa	n.a.	n.a.	–	–%
M.L. Mariani	n.a.	n.a.	7,009	42.9%

[1] As per BoM and LT Share Ownership Guidelines, to determine the value of shares on a specific date, the shares held are multiplied by the average of the closing prices of the shares on Euronext Amsterdam in the two months prior to that date (2020: EUR 34.85 and 2019: EUR 27.6).

Once the requirements under the Signify share ownership guidelines and under the Dutch corporate governance code are met, shares may be sold, subject to insider trading rules.

9.2.9 Pensions and other benefits

The design of the pension plan for the members of the Board of Management is the same as for all other Signify employees in the Netherlands which is referred to as a collective defined-contribution plan, based on career average salary.

The following pension arrangement is in place for the members of the Board of Management:
- The flex pension plan in the Netherlands, which is a collective defined-contribution plan with a fixed contribution of 30.3% up to the maximum pensionable salary of EUR 110,111 (2020).
- Members of the Board of Management pay a member contribution of 2% up to the maximum pensionable salary of EUR 110,111 (2020).
- The flex pension plan has a target retirement age of 68 (in 2020) and a target accrual rate of 1.85%.
- The members of the Board of Management receive a gross pension allowance equal to 25% of the base compensation exceeding EUR 110,111 and can choose to participate in a net pension arrangement by investing the net (after-tax) amount. The net pension arrangement is in line with all other Signify employees in the Netherlands whose pensionable salary exceeds the cap. Participation in this net pension arrangement is voluntary.
- A temporary gross transition allowance, for a maximum period of eight years (first five years in full; year 6: 75%; year 7: 50%, year 8: 25%). The temporary gross transition allowance only applies to members of the Board of Management who were employed before January 1, 2015 and still participated in the former executive pension plan, before

the change to the flex pension plan per January 1, 2015 with the capping of pension accruals and increase of pensionable age in line with the retirement age for state pension (AOW). The level of the allowance is based on the age and salary of the Board Member on December 31, 2014. As such this only applies to E.H.E. Rondolat and C.L. van Schooten.

The table below gives an overview of the accumulated annual pension entitlements and the pension costs of the individual members of the Board of Management.

Accumulated annual pension entitlements and pension-related costs in EUR

	Age at December 31, 2020	Accumulated annual pension as of December 31, 2019[1]	Total pension-related costs 2019[2]	Accumulated annual pension as of December 31, 2020[1]	Total pension-related costs 2020[2]
E.H.E. Rondolat	54	38,379	346,736	40,393	317,730
C.L. van Schooten	61	228,407	229,968	231,636	209,198
F.J. van Engelen Sousa	52	–	–	882	77,499
M.L. Mariani	60	–	–	1,029	84,787
S.L.A .Rougeot	52	5,859	141,982	6,194	23,433
Pension costs			**718,686**		**712,647**

[1] Total of entitlements under applicable pension scheme in Signify, including - if applicable - transferred pension entitlements under pension scheme(s) of previous employer(s).
[2] Cost include paid pension allowances as well as pension premium paid by employer to collective defined-contribution plan.

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2020, no (additional) pension benefits were granted to former members of the Board of Management.

Members of the Board of Management are also entitled to other benefits, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements.

In the case of F.J. van Engelen Sousa to facilitate relocation to the Netherlands, he was offered a housing allowance of EUR 177,000 net of which EUR 35,000 net was paid in 2020 and a relocation allowance of EUR 17,000 net of which EUR 12,000 net was paid in 2020.
The remainder of the allowances will be paid upon relocation of the family.

9.2.10 Change of the remuneration and company performance

For the purpose of reflecting company performance, free cash flow generation and share price have been selected as the most relevant measures. The table below reflects the annual change of remuneration of the members of the Board of Management, the employee average remuneration, free cash flow and Signify's closing share price at year-end. The information is provided over the full financial years since the company's IPO in May 2016.

Remuneration and company performance development in EUR unless otherwise stated

	2017	2018	2019	2020
E.H.E. Rondolat[1]	3,048,621	2,564,306	2,822,104	3,245,335
Delta in %		(16)%	10%	15%
C.L. van Schooten[1]	1,620,861	1,449,200	1,615,584	1,835,258
Delta in %		(10)%	11%	14%
F.J. van Engelen Sousa[1]	–	–	–	599,753
Delta in %	–	–	–	–
M.L. Mariani[1]	–	–	–	1,225,491
Delta in %	–	–	–	–
Employees[2]	64,550	61,264	60,601	51,780
Delta in %		(5)%	(1)%	(15)%
Free Cash Flow (in millions of EUR)	403	306	529	817
Delta in %		(24)%	73%	54%
Closing share price on last business day December	30.6	20.47	27.86	34.53
Delta in %		(33)%	36%	24%

[1] Remuneration is based on total compensation costs as reported in the table 'Remuneration and remuneration costs of individual members of the Board of Management' under 9.2 of this chapter. For C.L. van Schooten, it is excluding the amount for termination benefits.
[2] Employee average remuneration based on total employee benefit expenses and total employees in FTEs (third party workers excluded) as disclosed in note 5, Employee benefit expenses.

The company performance shows a steady increase in the outcomes of the selected measures. Free cash flow has consistently improved over the two year period from 2019 to 2020, as has the Signify share price. The total remuneration of the Board of Management has developed in line with the company performance. Total remuneration for the Board of Management has increased from 2019, reflective of the variable pay components. Annual incentive increased from 2019 driven by company and individual performance. The performance on the long-term incentive conditions is very positive as detailed in section 9.2.7, which influences ongoing grants. This is in line with the development of the free cash flow and share price, which increased by 54% and 24% respectively. The total remuneration of the Board of Management includes the 20% reduction in base salary in Q2 for which the Board of Management volunteered and a decline in the pension transition allowance as detailed in 9.2.9.

The trend in employee pay reflects the change in employee geographic spread. Since 2018, a greater proportion of our employee population has shifted from Western Europe to South East Asia, Asia, and Latin America. The acquisitions of Cooper Lighting and Klite resulted in an increase in our employee population from 2019 to 2020 and the majority of that increase is in Latin America, India and China. In addition, Signify has been increasing the employee population in India due to growth in R&D software and IT. As a result, average employee pay has been trending down reflective of this significant shift to our employee geographic spread.

9.2.11 Signify's internal pay ratio

The remuneration design for the members of the Board of Management is an integral part of the overall pay structure within the company. Signify uses the Hay system for evaluating and grading the various positions within its organization. This means that the company uses a standardized method for determining the appropriate benefits for each of the respective job levels within the company. Using the Hay grading system also ensures that the remuneration of the members of the Board of Management is aligned with and is relative to the remuneration of Signify employees holding other positions within the company.
The remuneration of senior staff within Signify is based on the same components as the remuneration of the members of the Board of Management.

The Corporate Governance Code requires reporting on pay ratio. Signify's pay ratio reflects the average total compensation of the total global employee workforce, relative to the total remuneration package of the CEO. This has resulted in the following outcome:

Fiscal year	CEO total remuneration [1]	Average total compensation employees [2]	Resulting pay ratio
2020	3,245,335	51,780	63
2019	2,822,104	60,601	47
2018	2,564,306	61,264	42
2017	3,048,621	64,550	47

1 Remuneration is based on total compensation costs as reported in the table 'Remuneration and remuneration costs of individual members of the Board of Management' under 9.2 of this Chapter 9. This represents a change from 2019 to provide a direct link to the total compensation costs as detailed in the table Remuneration and remuneration costs of individual members of the Board of Management in section 9.2 of this chapter.

2 Employee average remuneration based on total employee benefit expenses and total employees in FTEs (third party workers excluded) as disclosed in note 5, Employee benefit expenses.

In light of transparency and clarity, Signify applies a methodology to calculate the internal pay ratio that is IFRS-driven (i.e. linked to Signify's notes to the Consolidated financial statements).

The CEO pay ratio has increased from 2019 to 2020. As detailed in section 9.2.10 of this report, this is a result of the proportional shift in geographic spread of Signify employees from Western Europe to lower cost locations. The addition of Cooper Lighting and Klite employees in 2020 resulted in an increase in our employee representation in Latin America, India and China. As a result, average employee pay has declined from 2019 to 2020 reflective of this proportionally higher employee representation in lower cost locations. Signify believes that the pay ratio over the past years aligns with Signify's profile, considering the company's industry, workforce profile and geographic spread.

9.2.12 Claw back and change of control

The annual cash incentive and the long-term incentive of the members of the Board of Management are subject to adjustment and claw back provisions. Pursuant hereto, the company can (a) revise an incentive prior to payment if unaltered payment would be unreasonable and unfair, (b) recover an incentive if it was granted on the basis of incorrect information on the fulfillment of the incentive goals or the conditions for payment of the incentive, and (c) recoup incentives in the circumstances set forth in the services contract with the member of the Board of Management concerned.

In the event of a change of control of the company, the Supervisory Board can, at its sole discretion, decide to accelerate the vesting of any unvested awards under the long-term incentive, subject to the achievement of the performance conditions up to the date of the completion of the change of control.

No variable remuneration has been clawed-back In 2020.

9.2.13 Additional arrangements

Unless relevant law provides otherwise, the members of the Board of Management and of the Supervisory Board shall be reimbursed by the company for various costs and expenses, such as reasonable costs of defending claims, as formalized in the Articles of Association. Under certain circumstances, described in the Articles of Association, such as an action or failure to act by a member of the Board of Management or a member of the Supervisory Board that can be characterized as intentional ('opzettelijk'), intentionally reckless ('bewust roekeloos') or seriously culpable ('ernstig verwijtbaar'), there will be no entitlement to this reimbursement. The company has also provided liability insurance (D&O - Directors & Officers) for the persons concerned.

9.2.14 Contractual arrangements

Members of the Board of Management are engaged by a service contract ('overeenkomst van opdracht') with a maximum of four years ending on the date of the Annual General Meeting of Shareholders in the fourth calendar year after the appointment. Members of the Board of Management are appointed for a maximum period of four years, subject to re-appointment by the General Meeting of Shareholders. Termination of the services contract is subject to a notice period of six months for either party. The terms and conditions of these service agreements have been aligned with the relevant Corporate Governance Code provisions.

9.2.15 Severance arrangements

Contractual severance arrangements of members of the Board of Management comply with the Dutch Corporate Governance Code and provide for compensation for the loss of income resulting from a termination of employment and are capped at one time the annual base salary.

No severance is payable in case the agreement is terminated early at the initiative of the Board of Management member.

The Board of Management member shall not be entitled to a severance payment if the contract is terminated for urgent cause ('dringende reden'), For the definition of urgent cause ('dringende reden'), reference is made to article 7:678 of the Dutch Civil Code and further.

9.2.16 Loans

The company does not grant loans to members of the Board of Management.

9.3 Remuneration Supervisory Board

The remuneration of the individual members of the Supervisory Board, as well as the additional remuneration for its Chair and the members of its committees, is determined by the General Meeting. The remuneration of a member of the Supervisory Board consists of a fixed amount depending on the member's position on the board (chair/vice chair/other board members), an additional fee for the function of chair or member of committees and allowances for travel.

The remuneration of a Supervisory Board member is not dependent on the results of the company. Shares or rights to shares shall not be granted to a Supervisory Board member. The company does not grant loans to members of the Supervisory Board.

The fees and allowances for travel are as follows:

Remuneration Supervisory Board in EUR	
Supervisory Board fixed annual fee	
Chair	110,000
Vice Chair	85,000
Member	75,000
Committee fees	
Audit Committee	
Chair	22,500
Member	13,000
Remuneration Committee	
Chair	15,000
Member	10,000
Nomination Committee	
Chair	15,000
Member	7,500
Allowance for travel	
Intercontinental	5,000
Continental	2,500

When the activities of the Supervisory Board or other circumstances so require, the Supervisory Board may establish an ad hoc committee formed from among its members and assign certain tasks to such committee. In such event, the Supervisory Board may determine additional fees to be paid to the members of the ad hoc committee. The fees will be in line with the fees for the existing committees.

The following table reflects the total remuneration of each of the members of the Supervisory Board. Supervisory Board members took a voluntary 20% reduction in Q2 to support Signify in the response to COVID-19.

Remuneration of Key Management – the Supervisory Board in EUR (excluding VAT)

	Membership	Committees	Other compensation[4]	Total
2020[1]				
A.P.M. van der Poel	104,500	23,750	–	128,250
G. van der Aast	80,750	26,600	–	107,350
E. Blok	71,250	19,475	–	90,725
R.S. Lane	71,250	16,625	–	87,875
J. Lee[2]	40,000	12,000	2,500	54,500
P. Knapp[3]	52,500	11,698	2,500	66,698
F. Lubnau[3]	83,750	4,470	7,500	95,720
	504,000	**114,618**	**12,500**	**631,118**
2019				
A.P.M. van der Poel	110,000	25,000	2,500	137,500
G. van der Aast	85,000	28,000	–	113,000
E. Blok	75,000	20,500	–	95,500
R.S. Lane	75,000	17,500	29,189	121,689
J. Lee	75,000	22,500	17,500	115,000
	420,000	**113,500**	**49,189**	**582,689**

1 Includes 20% COVID-19 reduction in Q2 2020.
2 Stepped down as member of the Supervisory Board per July 31, 2020.
3 Appointment as a member of the Supervisory Board in AGM 2020. The remuneration includes the observer period.
4 The amounts mentioned under other compensation relate to the allowance for (inter-)continental travel.

At December 31, 2020, the members of the Supervisory Board held no Signify shares, options on Signify shares nor other Signify securities (2019: nil).

The following table reflects the annual change of remuneration of each of the members of the Supervisory Board over the full financial years since the company's IPO in May 2016.

Supervisory Board remuneration 2017 – 2020 in EUR (excluding VAT)

	2017	2018	2019	2020[7]
A.P.M. van der Poel	135,000	140,000	137,500	128,250
G. van der Aast	109,391	118,000	113,000	107,350
E. Blok	–	74,065	95,500	90,725
R.S. Lane	128,625	121,125	121,689	87,875
P. Knapp[1]	–	–	–	66,698
F. Lubnau[1]	–	–	–	95,720
J. Lee[2]	103,000	115,125	115,000	54,500
C.J.A. van Lede[3]	109,275	39,125	–	–
F.A. van Houten[4,5]	0	–	–	–
A. Bhattacharya[4,6]	0	0	–	–

1 Appointment as a member of the Supervisory Board in AGM 2020. The remuneration includes the observer period.
2 Stepped down as member of the Supervisory Board per July 31, 2020.
3 Stepped down as member of the Supervisory Board as per May 15, 2018.
4 Unsalaried.
5 Stepped down as member of the Supervisory Board per December 31, 2017.
6 Stepped down as member of the Supervisory Board per December 31, 2018.
7 Includes the 20% COVID-19 reduction in Q2 2020.

9.4 Remuneration outlook 2021

9.4.1 Base salary

For 2021, the Supervisory Board decided to align the annual base salaries of the Chief Financial Officer and M.L. Mariani in view of her extended scope of responsibilities as a board member. As a result M.L. Mariani's base salary has been adjusted to EUR 590,000 as per January 1, 2021. The Supervisory Board also decided to increase the base salary levels for all members of the Board of Management by 2%, such in line with the budgets (collective and merit increase) allocated for the CLA population in The Netherlands.

in EUR	January 1, 2021
E.H.E. Rondolat	919,737
F.J. van Engelen Sousa	601,800
M.L. Mariani	601,800

9.4.2 Annual cash incentive

For 2021 the Supervisory Board has decided to select the same financial performance measures and weighting as used in previous years: Comparable Sales Growth (30%), Adjusted EBITA (30%) and Free Cash Flow (20%), measured as a percentage of sales.

9.4.3 TSR Peer Group

In light of acquisition activities the TSR peer group will be reviewed in 2021.

9.4.4 Supervisory Board

As per January 1, 2021, the Supervisory Board established an ad hoc committee, the Digital Committee. Fees will be equal to the fees for the Audit Committee, as per section 9.3 of this Remuneration Report.

No other adjustments are foreseen to the remuneration of the members of the Supervisory Board.

10 Corporate governance

Introduction

Signify N.V., a public company with limited liability organized under Dutch law, is the parent company of the Signify group.

In May 2016, Koninklijke Philips N.V. offered part of its shares in the share capital of Signify N.V. to the public and the shares in the capital of Signify N.V. were listed on Euronext Amsterdam. Koninklijke Philips N.V. further decreased its stake via several sell downs in the years thereafter and in September 2019, it sold its remaining shares in the capital of Signify N.V. As a result of this sale by Koninklijke Philips N.V., the relationship agreement between Signify N.V. and Koninklijke Philips N.V. entered into in the context of the IPO, which contains certain governance arrangements, was terminated.

Signify N.V. has a two-tier board structure consisting of a Board of Management and a Supervisory Board. The two boards are independent of each other and are accountable to the Annual General Meeting of Shareholders (AGM) for the performance of their duties.

The Board of Management and the Supervisory Board are responsible for maintaining an appropriate corporate governance structure of the company.

Signify N.V.'s corporate governance framework is based on the company's Articles of Association, the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code, the Dutch Financial Markets Supervision Act and any other applicable laws and regulations. Additionally, the Board of Management has implemented a code of conduct, policies, directives and authorization schedules throughout Signify in order to strengthen its governance framework.

Deviations from aspects of the corporate governance structure of the company, when deemed necessary in the interests of the company, will be disclosed in the Annual Report. Substantial changes to the company's corporate governance structure and to the company's compliance with the Dutch Corporate Governance Code, if any, will be submitted to the AGM for discussion under a separate agenda item.

10.1 Signify organization

Signify's business is organized and managed on a functional basis by technology and end-markets through three divisions: Division Digital Solutions, Division Digital Products and Division Conventional Products. The Divisions are responsible for the development of their strategy, product portfolio and the production and sourcing of their products.

In addition, the company's commercial organization is currently structured along four geographical Market Groups to manage its global sales channels. The Market Groups are principally responsible for driving and managing sales, managing customer relationships and delivering the commercial activities of the business across the company's markets, covering commercial activities in almost all countries.
The company operates in many countries via its subsidiaries and affiliated companies as well as via a limited number of branch

offices, which primarily act under the Signify trade name.

Divisions and Market Groups are supported by centralized shared services with respect to, among other functions, legal, finance, human resources, business transformation, strategy, marketing, innovation and operations.

Signify intends to remove its current Market Group structure and organize its markets in clusters. This is currently subject to works council proceedings.

10.2 Board of Management

The Board of Management is entrusted with the management of the company. The Board of Management focuses on long-term value creation for the company and its business, and takes the relevant stakeholders' interests into account.

Among other responsibilities, the Board of Management drives the company's management agenda, defines and deploys the strategic direction, identifies opportunities and risks connected with its business activities and strategy, pursues the operational and financial objectives of the company and monitors corporate social responsibility issues relevant to the company.

In performing its duties, the Board of Management is guided by the interests of the company and its affiliated enterprises, taking into consideration the interests of its stakeholders.

The Board of Management is accountable for its actions and decisions to the Supervisory Board and is answerable to shareholders of the company at the AGM.

The Chief Executive Officer and other members of the Board of Management have regular contact with the Chair and other members of the Supervisory Board, attend most parts of the Supervisory Board meetings, and provide the Supervisory Board with all the information it needs to fulfil its own responsibilities.

Certain decisions of the Board of Management require Supervisory Board approval, including important proposals for capital expenditures, acquisitions, divestments, decisions concerning financial and operational objectives and strategy to achieve such objectives, changes to corporate policies, as well as the annual operating plan.

The functioning and decision-making within the Board of Management are laid down in its Rules of Procedure which can be found on the company's website.

Appointment and composition

Members of the Board of Management are appointed by the General Meeting of Shareholders (the General Meeting) upon a nomination drawn up by the Supervisory Board, which nomination may be binding.

Members of the Board of Management are appointed for a maximum term of four years, it being understood that this term expires at the end of the AGM to be held in the fourth year after the year of their appointment. Re-appointment is possible for consecutive terms of four years or, if applicable, until a later retirement date or other termination date in the fourth year, unless the General Meeting resolves otherwise. Members may be suspended by the Supervisory Board and the General Meeting, and dismissed by the latter.

The composition of the Board of Management follows the profile which aims for an appropriate combination of knowledge and experience among its members, encompassing industrial, technology & innovation, projects & infrastructure, digital & marketing, financial, economic, IT, social & sustainability aspects of international business and society, in relation to the global character of its business. The size of the Board of Management may vary over time, as considered appropriate to support its profile.

Remuneration

The remuneration of the individual members of the Board of Management is determined by the Supervisory Board based on the remuneration policy adopted by the General Meeting. The composition of the remuneration of the members of the Board of Management and the remuneration policy are described in chapter 9, Remuneration report, of this Annual Report.

Diversity

Signify attaches great importance to diversity and it is its ambition to increase the diversity of the company's entire workforce to better mirror its stakeholders and markets. Signify believes that this will positively impact the company's business performance in all countries in which the company does business.

In view of the above, Signify aims for the Board of Management and the Supervisory Board to be composed of members that bring a diversity of skills and expertise relevant for achieving the company's strategic and business objectives, different views and perspectives as well as different backgrounds (nationality, educational, working experience or otherwise), and that at least 30% are men and at least 30% are women. The latter is in line with Dutch legislation that was effective until December 31, 2019. In November 2020, the Dutch government published a proposal introducing a "grow in quota", which should result in supervisory boards of listed companies being composed of at least 1/3 men and at least 1/3 women. Signify's Supervisory Board meets this diversity objective.

For further information, please refer to chapter 8, Supervisory Board report, of this Annual Report.

Conflicts of interest

Members of the Board of Management or Supervisory Board shall not participate in the discussions and decision-making process on a subject or transaction which they have a direct or indirect personal conflict of interest or have a conflict of interest within the meaning of the Dutch Corporate Governance Code. Relevant matters relating to conflicts of interests, if any, must be approved by the Supervisory Board and shall be mentioned in the Annual Report for the financial year in question. No legal acts as referred to above occurred during the financial year 2020.

Outside directorships

The acceptance by a member of the Board of Management of a position as a member of a supervisory board or a position of non-executive director in a one-tier board at another company requires the approval of the Supervisory Board. The Supervisory Board is required to be notified of other important positions (to be) held by a member of the Board of Management.

Dutch law provides for limitations on the overall number of supervisory positions that a member of the Board of Management or Supervisory Board (including a one-tier board) of large Dutch companies may hold. A person cannot be appointed as a managing or executive director of a large Dutch company if he or she already holds a supervisory position at more than two other large Dutch companies or if he or she is the chair of the supervisory board or one-tier board of another large Dutch company. Also, a person cannot be appointed as a supervisory director or non-executive director of a large Dutch company if he or she already holds a supervisory position at five or more other large Dutch companies, whereby the position of chair of the supervisory board or one-tier board of another large Dutch company is counted twice.

10.3 Supervisory Board

The Supervisory Board, in the two-tier board structure under Dutch law, is a separate body that is independent of the Board of Management. The Supervisory Board supervises the policies and management and the general affairs of the company. The Supervisory Board also provides advice to the Board of Management. In performing its duties, the members of the Supervisory Board are guided by the interests of the company and the business of the group, taking into consideration the interests of its stakeholders.

Appointment and composition

The members of the Supervisory Board are appointed by the General Meeting on the nomination of the Supervisory Board, which nomination may be binding. The Dutch large company regime (structuurregime) does not apply to Signify N.V. itself.

The Articles of Association do not provide for a fixed or maximum term of appointment. In line with the Dutch Corporate Governance Code, the members of the Supervisory Board have been appointed for a period of a maximum of four years, it being understood that the period of their appointment will end at the closing of the AGM to be held in the fourth year after appointment.

The Supervisory Board consisted of five members at the start of 2020 and six members as of August 2020, all members being independent. The composition of the Supervisory Board follows the profile which aims for an appropriate combination of knowledge and experience among its members, encompassing industrial, technology & innovation, projects & infrastructure, digital & marketing, financial, economic, IT, social & sustainability aspects of international business and society, in relation to the global character of its business. The size of the Supervisory Board may vary over time, as considered appropriate to support its profile. The composition of the Supervisory Board shall be in accordance with the best practice provisions on independence of the Dutch Corporate Governance Code as well as Dutch law restrictions on the overall number of supervisory positions that a member of the Supervisory Board may hold. Each member shall be capable of assessing the broad outline of the overall management of the company.

The Supervisory Board meets at least six times a year. Meetings of the Supervisory Board are attended by the CEO and, if possible, by the other members of the Board of Management and the company's general secretary, unless the Supervisory Board decides otherwise and save for certain meetings as described in the Supervisory Board Rules of Procedure.

Remuneration

The remuneration of the individual members of the Supervisory Board, as well as the additional remuneration for its Chair and the members of its committees, is determined by the General Meeting. The composition of the remuneration of the members of the Supervisory Board and the remuneration policy are described in chapter 9, Remuneration report, of this Annual Report.

Independence of the Supervisory Board

The Supervisory Board is a separate corporate body that is independent of the Board of Management. Its independent character is also reflected in the requirement that members of the Supervisory Board can be neither a member of the Board of Management nor an employee of the company. Each member of the Supervisory Board meets the independence requirements as stated in the Dutch Corporate Governance Code.

Supervisory Board Committees

In 2020, the Supervisory Board had three committees: The Audit Committee, the Corporate Governance and Nomination & Selection Committee and the Remuneration Committee. As of 2021, the Supervisory Board has also established the Digital Committee. Each of the committees has a preparatory and/or advisory role to the Supervisory Board. They report their findings to the full Supervisory Board, which is ultimately responsible for all decision-making. Information on the work and composition of the committees during 2020 is set out in chapter 8, Supervisory Board report, of this Annual Report.

Each committee has a charter describing its role, responsibilities and functioning. These charters are published on the company's website.

Audit Committee

The Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities for the integrity of the company's financial statements, the financial reporting process, the system of internal business controls and risk management, the internal and external audit process, the internal and external auditor's qualifications, its independence and its performance, as well as the company's process for monitoring compliance with laws and regulations and its Integrity code. It reviews the company's annual and interim financial statements, including non-financial information, prior to publication and advises the Supervisory Board on the adequacy and appropriateness of internal control policies and internal audit programs and their findings. It furthermore maintains contact with and supervises the external auditor and it prepares the nomination of an external auditor for appointment by the General Meeting.

The Audit Committee meets at least once before the publication of the quarterly and annual accounts of the company.

Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee advises the Supervisory Board on its duties regarding the (procedures for the) selection and appointment of members of the Supervisory Board and the members of the Board of Management. The duties of the Corporate Governance and Nomination & Selection Committee include preparing the selection criteria and appointment procedures for members of the Supervisory Board and the members of the Board of Management and proposing the profile for the Supervisory Board. The Committee is also involved in the selection and appointment of the company's leadership team, appointments of which are subject to the Supervisory Board's approval. It also periodically assesses the size and composition of the Board of Management and the Supervisory Board, and the functioning of the individual members. The performance evaluation of the Board of Management and Supervisory Board is led by this Committee. The Corporate Governance and Nomination & Selection Committee also proposes on appointments and re-appointments. It supervises the policy on selection criteria and appointment of senior executives within the company. At least once a year it reviews the corporate governance of the company and can make recommendations to the Supervisory Board relating to the corporate governance of the company.

The Corporate Governance and Nomination & Selection Committee meets at least twice every year.

Remuneration Committee

The Remuneration Committee is responsible for preparing proposals for the Supervisory Board on the remuneration policy for the Board of Management and on the remuneration of the individual members of the Board of Management and for overseeing the long-term incentive plans for the company's executives involving the company's shares.

The Remuneration Committee also reviews the proposed remuneration of certain senior executives designated by the Supervisory Board and the remuneration of the members of the Supervisory Board and prepares proposals for adjustments, if necessary.

Furthermore, the Remuneration Committee reviews and prepares proposals for the Supervisory Board concerning the corporate goals and objectives relevant to the annual incentive of members of the Board of Management, and reviews the performance of members of the Board of Management in light of those goals and objectives, and it prepares proposals for the Supervisory Board on the compensation levels of the members of the Board of Management, based on such review.

The Remuneration Committee prepares an annual remuneration report, which is included in chapter 9, Remuneration report, of this Annual Report. The Remuneration Committee meets at least twice per year.

Digital Committee

The Digital Committee is responsible for reviewing the company's digital strategy, roadmap, resourcing and any changes thereto. It also assists the Supervisory Board in supervising the company's policy on digital marketing strategies, tools and operations and reporting its findings and recommendations to the Supervisory Board. It reviews the company digital objectives and performance, periodically assesses the effectiveness and results of the digital initiatives as well as management skills, capabilities and training. At least once a year, the Digital Committee will review the governance for deciding on digital prioritization and spending within the company. On all topics, the Digital Committee will report its findings and recommendations to the Supervisory Board and prepare for any decision-making by the Supervisory Board in relation to any of the Committee's responsibilities.

The Digital Committee is a Supervisory Board committee effective as of January 1, 2021. The Digital Committee meets at least four times a year.

10.4 General Meeting of Shareholders

The main powers of the General Meeting are:

- to appoint, suspend and dismiss members of the Board of Management and of the Supervisory Board, adopt the remuneration policy and approve equity-based incentive plans for members of the Board of Management and adopt the remuneration of the members of the Supervisory Board;
- to adopt the annual accounts, declare dividends and to discharge the members of the Board of Management and the Supervisory Board from liability in respect of the performance of their respective duties in the previous financial year;
- to appoint the external auditor as required by Dutch law;
- to adopt amendments to the Articles of Association and proposals to dissolve or liquidate the company, to issue shares or rights to shares, to restrict or exclude preemptive rights of shareholders and to repurchase or cancel outstanding shares, as well as other important matters, such as major acquisitions or the sale of a substantial part of the company, as required by law.

The AGM is held within six months after the end of each financial year in order to discuss the Annual Report and decide on the adoption of the financial statements and dividend proposal as well as the discharge of the members of the Board of Management and the Supervisory Board.

The AGM is called by the Board of Management or the Supervisory Board. The Board of Management is entitled to determine the record date in accordance with Dutch law. The agenda, explanatory notes thereto and the procedure for attendance are published on the company's website. Holders of ordinary shares in the aggregate representing at least 3% of the total issued share capital may submit proposals for the AGM agenda. Such proposals must be made in writing at least 60 days before the AGM to the Board of Management. Any written request must comply with the procedure stipulated by the Board of Management, which is published on the company's website.

Each ordinary share confers the right to cast one vote in the General Meeting. There are no special statutory rights attached to the shares of the company and no restrictions on the voting rights of the company's shares exist. Subject to certain exceptions provided by Dutch law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast. A resolution to amend the Articles of Association requires a simple majority of the votes cast, if the resolution is adopted on a proposal of the Board of Management. Otherwise, such resolution requires a majority of at least three-fourths of the votes cast provided that majority represents more than half of the issued share capital. Pursuant to Dutch law, no votes may be cast at a General Meeting in respect of shares which are held by the company.

Share capital and repurchase and issue of (rights to) shares

The authorized share capital of the company amounts to EUR 6 million, divided into 300 million ordinary shares with a nominal value of one eurocent each and 300 million preference shares, also with a nominal value of one eurocent each. On December 31, 2020, the issued share capital amounted to EUR 1.28 million, divided into 128,344,238 ordinary shares and no preference shares. All shares are fully paid-up. The shares are in registered form. There are currently no limitations either under Dutch law or the company's Articles of Association, as to the transfer of ordinary shares in the share capital of the company.

The Board of Management, to the extent authorized by the General Meeting for a specific period, may resolve to issue or repurchase shares, subject to the approval of the Supervisory Board. The Board of Management may limit or exclude preemptive rights if designated to do so by the General Meeting.

At the AGM held on May 19, 2020, the General Meeting resolved to authorize the Board of Management for a period of 18 months, effective as of May 19, 2020, to issue shares or grant rights to acquire ordinary as well as to restrict or exclude the preemptive rights accruing to shareholders, in each case up to a maximum of 10% of the issued share capital as at May 19, 2020 and subject to approval from the Supervisory Board. At the same time, the Board of Management was authorized to acquire shares in the company up to 10% of the issued share capital as at May 19, 2020 plus an additional 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction purposes.

Anti-takeover provisions and change of control

The possibility of issuing preference shares in the share capital of the company is a defensive measure. To this end, the foundation Stichting Continuïteit Signify has been granted a call option by the company to acquire preference shares. The foundation may resolve to exercise the call option at its sole discretion and does not require the consent of the company to exercise the call option. On the exercise of the call option, the foundation is entitled to acquire, and the company shall have the unconditional obligation to issue, preference shares up to a maximum corresponding with 100% of the issued and outstanding share capital of the company. This shall exclude the preference shares as issued and outstanding immediately prior to the exercise of the call option, less one preference share, from which maximum any preference shares already placed with the foundation at the time of the exercise of the call option must be deducted.

The call option can be exercised by the foundation in order to, for example:

- prevent, slow down or otherwise complicate an unsolicited takeover bid for and an unsolicited acquisition of shares by means of an acquisition at the stock market or otherwise;
- prevent and countervail concentration of voting rights in the General Meeting; and/or
- resist unwanted influence by and pressure from shareholders to amend the strategy of the company.

If the foundation exercises the call option, the company issues such number of preference shares as for which the foundation exercised its call option. No preference shares had been issued as of December 31, 2020. In addition, the foundation has the right to file a petition with the Enterprise Chamber of the Amsterdam Court of Appeal to commence an inquiry procedure within the meaning of section 2:344 Dutch Civil Code.

The foundation's objects are to further the interests of Signify N.V., the enterprises maintained by the company and the companies affiliated with the company in a group. The foundation will act in such a way that the interests of the company and of those enterprises are optimally safeguarded and that influences which could affect the independence, continuity or identity of the company, the enterprise maintained by the company and the companies affiliated with the company in a group in conflict with those interests are deterred to the best of the foundation's ability.

As of December 31, 2020 the board of the foundation was composed as follows: Jos Streppel (chair), Sietze Hepkema and Jan Willem Baud.

Furthermore, it should be noted that also in the event of (an attempt at) a hostile takeover or other attempt to obtain (de facto) control of the company, the Board of Management and the Supervisory Board are authorized to exercise in the interests of Signify all powers vested in them.

The company is not a party to any material agreement that takes effect, alters or terminates upon a change of control of the company following a take-over bid as referred to in section 5:70 of the Dutch Financial Markets Supervision Act, other than the credit agreement entered into with a syndicate of financial institutions which established term loans and a revolving credit facility, the Eurobonds issued by the company in 2020 and the Trade Mark License Agreement entered into with Koninklijke Philips N.V. The credit agreement includes a change of control provision which allows the lenders to cancel the commitment and declare any outstanding amounts under the agreement, immediately due and payable whereupon such amounts will become immediately due and payable. The provisions applicable to all Eurobonds issued by the company in 2020 contain a 'Change of Control Put Event'. This means that if the company experienced such an event with respect to such bonds, the company might be required to redeem or purchase the bonds at its principal amount, plus accrued and unpaid interest, if any.

10.5 External auditor

Under Dutch law, the external auditor of the company is appointed by the General Meeting. In accordance with the Dutch Corporate Governance Code and Regulation (EU) 537/2014, the Supervisory Board selects and nominates an external auditor for appointment, upon advice by the Audit Committee. The Supervisory Board and the Audit Committee assess the functioning of the external auditor, taking the observations from the Board of Management into account. The General Meeting re-appointed Ernst & Young Accountants LLP as external auditor of the company for the financial years 2020 through 2022.

The external auditor attends, in principle, all meetings of the Audit Committee. The findings of the external auditor, the audit approach and the risk analysis are also discussed at these meetings. The external auditor attends the meeting of the Supervisory Board at which the report of the external auditor with respect to the audit of the annual accounts is discussed, and at which the annual accounts are approved.

Auditor independence

The Audit Committee evaluates at least annually the external auditor's independence. The lead auditor in charge of the Signify account is changed every five years; such change will take place as of the financial year 2021. Furthermore, Dutch law requires the rotation of the external audit firm after the firm has completed the statutory audits of the company for a period of 10 consecutive years.

Prohibition on non-audit services

The Audit Committee reviews the proposed audit scope, approach and fees as well as services that the external auditor provides to the company. Dutch law requires the separation of audit and non-audit services, meaning the company's external auditor is not allowed to provide prohibited non-audit services.

10.6 Dutch Corporate Governance Code

The company fully endorses the underlying principles of the Dutch Corporate Governance Code, and is committed to adhering to the best practices of the Code as much as possible.

The company fully complies with the Code and applies all its principles and best practice provisions that are addressed to the Board of Management or the Supervisory Board.

11 Investor relations

11.1 Shareholder engagement

Signify attaches great value to maintaining an open dialog with shareholders, investors and equity analysts to promote transparency and receive valuable feedback. The company conducts extensive investor outreach throughout the year involving investor relations and members of the Board of Management, to ensure that issues which matter most to shareholders can be addressed effectively.

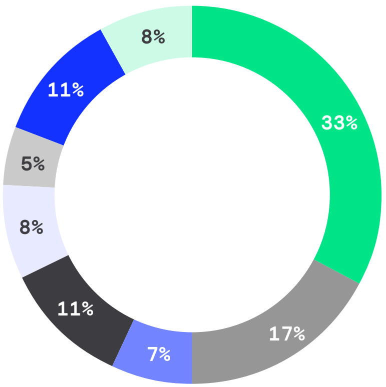
In 2020, Signify hosted its first Capital Markets Day, which was attended by 105 investors and analysts from 83 different firms. In addition, Signify hosted around 70 conference calls and around 145 investor meetings through 17 roadshow days, 13 investor conference days and in-house meetings, thereby reaching around 240 unique investment institutions and covering more than 70% of its shareholder base, excluding passive funds. As part of this engagement, the company met at least twice with 9 of its largest 10 shareholders, excluding passive funds, through at least 30 meetings and conference calls.

Signify has an active investor relations approach aimed at supporting the company's long-term ambitions by keeping existing and potential shareholders well-informed about its strategy and the latest operational and financial developments. Signify releases a full set of financial results on a quarterly basis. Each quarter, the company also organizes conference calls for research analysts and institutional investors to discuss these results, which can be accessed and replayed on Signify's Investor Relations website. In addition, if external circumstances allow, the company organizes an analyst dinner at least once a year hosted by the CEO and the CFO. The Supervisory Board receives regular updates that summarize the feedback from institutional shareholders and investors as well as equity analysts, which give the members of the Supervisory Board a clear understanding of shareholders' views and concerns.

II.2 Shareholder base

Signify has a broad base of international shareholders, as shown in the chart below. The information is based on an independent shareholder identification analysis using data available in December 2020.

Geographical distribution of shares [1]



[1] Excluding treasury shares, prime brokerage and retail investors.

The Dutch Financial Markets Supervision Act requires institutions and individuals holding a (potential) capital and/or voting interest of 3% or more in Signify to disclose such to the Netherlands Authority for the Financial Markets (AFM). The AFM processes these disclosures in its publicly available register, which can be found at www.afm.nl. The table below includes the total interests of 3% or more registered at the AFM on December 31, 2020, and the related actual interests.

Signify shareholders

	% Actual interest [1]	Total % registered [2]
BlackRock, Inc	3,5%	3,8%
Dimensional Fund Advisors LP	3,1%	3,1%
Allianz Global Investors GmbH	3,0%	3,0%
Norges Bank	3,0%	3,0%
JP Morgan Asset Management Holdings Inc.	2,9%	3,0%

[1] The actual interest reflects the % registered interest, excluding potential interests, such as options, futures, forward-rate agreements and other derivatives contracts.
[2] The total % registered includes the actual and potential interests such as options, futures, swaps, forward-rate agreements and other derivatives contracts.

Source: AFM

II.3 Annual General Meeting of Shareholders

The 2021 Annual General Meeting of Shareholders will be held on May 18, 2021. The agenda and the explanatory notes to the agenda will be published on the company's website. The record date for the 2021 Annual General Meeting of Shareholders is April 20, 2021, after processing all settlements of that date. People registered as shareholders in the designated register on that date, and who have registered for the meeting, will be entitled to attend and vote on the meeting. Depending on the developments around COVID-19, Signify may decide that the AGM will be held virtually.

II.4 Capital allocation

Capital allocation policy

Signify remains focused on maintaining a robust capital structure and is committed to an investment grade rating. The company plans to pay an increasing annual dividend per share in cash year-on-year and will continue to prioritize deleveraging to strengthen its balance sheet and return to a leverage ratio of reported net debt/EBITDA of less than 1x by the end of 2022. Signify will continue to invest in R&D and other growth opportunities, while pursuing selective M&A opportunities in line with its strategic priorities.

Dividend policy

Signify plans to pay an increasing annual dividend per share in cash year-on-year. The payment of dividends, if any, and the amounts and timing thereof depend on several factors, including future sales, profits, financial conditions, general economic and business conditions and prospects. Other factors that the Board of Management may deem relevant, as well as other legal and regulatory requirements, may also impact the amount, timing and payment of future dividends. These may be beyond the control of the company.

Proposed dividend

The company proposes a dividend of EUR 1.40 per share, in cash, from the net income for full-year 2020, in line with its dividend policy of paying an increasing dividend per share every year. This is in addition to the extraordinary dividend of EUR 1.35 per share to its shareholders, as proposed on January 13, 2021.

The dividend payment is subject to approval by the Annual General Meeting of Shareholders. Dividend in cash is, in principle, subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to shareholders.

Dividend dates

	Signify shares
Ex-dividend date	20 May 2021
Dividend record date	21 May 2021
Dividend payment date	1 June 2021

Share repurchases for LTI hedging

During 2020, Signify repurchased 1,333,418 shares for a total consideration of EUR 38 million to cover obligations arising from its long-term incentive performance share plan and other employee share plans. These repurchases took place in February, July and August 2020.

II.5 Debt info

In January 2020, Signify entered into new committed financing facilities to replace its term loans of EUR 740 million and USD 500 million and its revolving credit facility of EUR 500 million with similar terms, which were due to expire in May 2021.

The committed term loan structure consisted of EUR 400 million and USD 275 million with a maturity of three years (January 2023) and EUR 340 million and USD 225 million with a maturity of five years (January 2025). The committed EUR 500 million multi-currency revolving credit facility (RCF) has a maturity of five years (January 2025), with the option to extend it twice by one year at the end of the first and second anniversary. In January 2021 the RCF was extended by one year until 2026. The option remains to extend the RCF by another year.

As of September 2020, following the repayment of EUR 350 million of debt, the committed term loan structure consists of EUR 50 million and USD 275 million maturing in January 2023 and EUR 340 million and USD 225 million maturing in January 2025.

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 the company has at least one investment grade rating. Signify has investment grade ratings with two rating agencies.

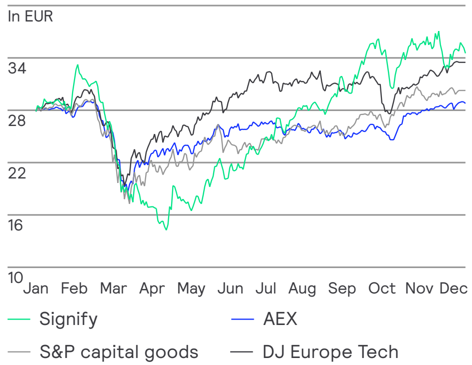
In May 2020, Signify issued its inaugural EUR 1.275 billion Eurobond Offering comprising of EUR 675 million fixed rate notes due 2024 with a coupon of 2.000% and EUR 600 million fixed rate notes due 2027 with a coupon of 2.375%. The notes are listed on the Official List of the Luxembourg Stock Exchange and traded on the regulated market of the Luxembourg Stock Exchange. The net proceeds of the notes were used to repay the bridge loan used to finance the acquisition of Cooper Lighting, which was completed on March 2, 2020.

More information about our debt position can be found here.

II.6 Share performance

In 2020, after an underperformance in the first half, the share price of Signify outperformed the DJ Europe (excl. UK) technology index, S&P capital goods index and the AEX. The share price increased by 24% in 2020, compared to a 20% increase of the the DJ Europe (excl. UK) technology index, a 9% increase of the S&P capital goods mid-cap index and a 3% increase in the AEX. The market capitalization at year-end 2020 was EUR 4.4 billion and the free-float was 98%.

Share price development



II.7 Financial calendar

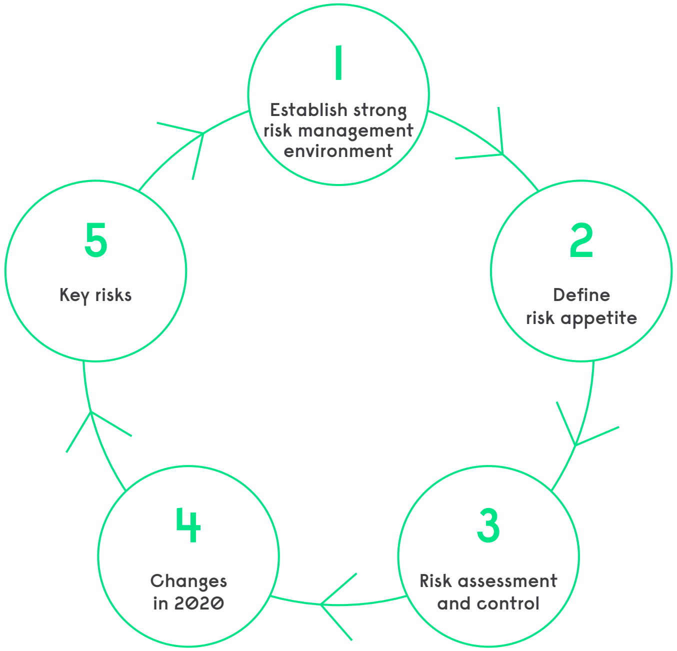
Financial calendar 2021

Q1 2021 financial report	April 30
Annual General Meeting of Shareholders 2021	May 18
First-half 2021 financial report	July 23
Q3 2021 financial report	October 29

12 Risk factors and risk management

Introduction

At Signify, we believe taking risks is an inherent part of entrepreneurial behavior. By deploying a structured risk management process, it allows management to take risks in a controlled manner. The company's risk management and controls are designed to provide reasonable assurance that strategic and financial business objectives are met by integrating management control into the daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the company's financial reporting and its related disclosures. The components of our risk management process are listed below.



12.1 Establish strong risk management environment

Signify's risk management environment is embedded in the corporate governance, the business control framework and the Integrity code.

Corporate governance

Corporate governance is the system by which a company is directed and controlled. Good corporate governance derives from, among other things, solid internal controls and high ethical standards.

The Board of Management is responsible for the risk management associated with the company's activities and defining the company's risk appetite. It is assisted by the company leadership team, which participate on a quarterly basis in audit risk and control meetings to identify critical risks and review progress on the implementation of risk responses. The Audit Committee of the Supervisory Board provides oversight for the system of internal business controls and risk management. Internal audits, external audits or management self-assessment are reported to and discussed quarterly by the Audit Committee. An in-depth description of the company corporate governance structure can be found in chapter 10, Corporate governance, of this Annual Report.

Business Control Framework

The company's Business Control Framework (BCF) sets the standard for risk management and business controls in the company. The objectives of the BCF are to maintain integrated management control of the company's operations, in order to ensure the integrity of the financial reporting and related disclosure, as well as compliance with applicable laws and regulations. The company has designed its BCF based on the frameworks established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The company regularly evaluates and improves its BCF to align with business dynamics and good practice.

Integrity code

Acting with integrity is the cornerstone for the success of our business and key to achieving our purpose. It is integral to the values that define us as a company. Acting with integrity means making the right choices when faced with ethical dilemmas and holding ourselves and each other to high standards of behavior.

The Integrity code has been adopted by the Board of Management. It applies to all employees of Signify N.V. and its controlled subsidiaries. The Integrity code formulates minimum standards of behavior.
The company has underlying policies that form an integral part of the Integrity code.

To increase the level of awareness and to create global engagement, the company has established a network of Compliance Officers in countries where the company has a presence, on each significant site, and at Division, Market Group and Functional level. The activities and responsibilities of this network are focused on providing expertise and support on Integrity code-related matters to managers and employees.

The Integrity code is supported by mechanisms that ensure standardized reporting, escalation and investigation of concerns. These mechanisms are based on the Integrity code Reporting Policy that urges employees and third parties to report any concerns they may have regarding business conduct in relation to the Integrity code, either through a Compliance Officer or through the Signify Ethics line. The Signify Ethics line enables employees and third parties to report a concern either by telephone or online via a web intake form. All concerns raised are registered consistently in a single database and are investigated in accordance with standardized investigation procedures. An overview of the reporting activities for 2020 are given in chapter 16, Sustainability statements, of this Annual Report.

12.2 Define Risk appetite

Risk management in Signify focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. The board of management has determined the risk appetite and seeks to manage risk within these boundaries. The risk appetite is different for each of the risk categories:

Strategic risks

Strategic risks include economic and political developments and the effects of actions taken to anticipate and respond to market circumstances. The company has medium risk appetite and is prepared to take some reasonable strategic risks, balancing the need to capture return from opportunities and manage risks.

The company's key strategic risks are discussed in 12.5 and include 'Technological change', 'Competition', 'Global political and economic instability – COVID-19', 'Digitalization', 'Acquisitions and integration'.

Operational risks

Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events that are linked to the running of each business. The company has low risk appetite and aims to minimize downside risks to maintain the high quality of its products, systems and services, reliable IT systems and sustainability commitments.

The company's key operational risks are discussed in 12.5 and include 'Re-allocation of resources', 'Supply disruptions', 'Innovation', 'Cyber-attacks and security breaches', New organizational capabilities', 'Climate change'.

Compliance risks

These risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. The company is, due to the global footprint, exposed to risk of fraud and other misconduct in violation of the integrity code and/or applicable laws and regulations and governmental investigation and legal proceedings in relation thereto. The company has very low risk appetite and is committed to full compliance to relevant laws, regulations and its Integrity code.

Financial risk

The company faces financial risks outside its control related to treasury, accounting and reporting, pensions, and tax. Here, the risk appetite is low. Therefore, the company aims to minimize the impact, and it follows a conservative risk management approach in these areas. Furthermore, the company is committed to transparent and truthful accounting and reporting to allow users of the financial statements to take decisions considering these risks.

12.3 Risk assessment and control

In order to provide a comprehensive view of the company's business strategy and activities, risks and opportunities are identified in a structured way, combining elements of top-down and bottom-up approaches.

Strategic risk

During the annual risk workshop, the company leadership team identifies risks and ranks them based on impact, likelihood, risk criticality and control effectiveness. Owners are assigned and accountable for ensuring adequate risk mitigation and monitoring measures are implemented. The outcome of the risk workshop is integrated in the strategic planning cycle. Each quarter the key risks are discussed during the audit and risk committee meetings. Reported risks and opportunities are analyzed for potential cumulative effects and are aggregated at Division, Market Group and company level.

Operational risk

Risks are reported on a regular basis as part of the business performance reviews or, for specific topics, through dedicated risk committees. In addition, on an annual basis the top risks are identified by company leadership. Relevant risks including those associated with business opportunities are prioritized in terms of potential impact and likelihood, considering quantitative and/or qualitative aspects and reviewed with the board of management. On a quarterly basis, risks and controls are reviewed in the audit risk committees with the Divisions, Market Groups and specific Functions.

Compliance risk

The Integrity Committee is the ultimate body within Signify to administer the organization's Integrity Code Legal Compliance Program. It does so by maintaining oversight of the development and implementation of the Integrity code, including the monitoring of its effectiveness. The integrity Committee is chaired by the Chief Legal Officer. Its members include the Chief Executive Officer, Chief Financial Officer, Chief HR Officer, Head of Internal Audit and the Head of Legal Compliance.

With an annual Integrity code self-assessment process forming part of ICS, compliance to the Integrity code forms part of management's ICS monitoring process. Management of each business unit signs off on controls relating to compliance with the Integrity code, with this confirmation forming part of the annual certification statement on Business Controls. Non-compliance issues are highlighted and, if significant, they are reported to the Board of Management through the Certification Statement process.

Employees are requested to state their commitment to the Integrity code after having completed the e-learnings. In 2020, employees were required to complete one or more e-learnings on the Integrity code and related legal compliance domains. Specific target groups were required to participate in recurring face-to-face trainings. In addition, each year Finance and Procurement employees are asked to sign off on the Financial and the Procurement Codes of Ethics respectively. All executives are asked to sign off on the Integrity code each year to confirm their awareness of and compliance with the code. Violations of the Integrity code will result in disciplinary action, up to and including dismissal.

Financial risk

The company has implemented a global standard for internal controls over financial reporting (ICS). ICS, together with the established accounting procedures, are designed to provide reasonable assurance that assets are safeguarded, that the books and records properly reflect transactions necessary to permit preparation of financial statements, that policies and procedures are carried out by qualified personnel and that published financial statements are properly prepared and do not contain any material misstatements.

Internal controls are an inherent part of the processes in our company, where the responsibility for executing these internal controls is with the persons that carry out these processes. The design and maintenance of the global standard for internal controls is with the (global) business process owners and the dedicated ICS team.

An ICS monitoring process exists for all material reporting units, where business process owners engaged in the key financial processes perform self-assessment on several key controls, document the results, and take corrective action where necessary. ICS supports business and functional management in a periodic cycle of assessment and monitoring of the control environment.

On an annual basis, management's accountability for business controls is recorded through the formal issuance of a Certification Statement on Business Controls and a Letter of Representation by Divisions, Market Groups, reporting units and Functional management to the Board of Management. Any deficiencies noted in the design and operating effectiveness of controls over financial reporting, which were not completely remediated, are evaluated at year-end by the Board of Management. The Board of Management's statement, including its conclusions regarding the effectiveness of internal controls over financial reporting can be found in chapter 13, Statement of the Board of Management, of this Annual Report.

The global tax strategy and policy are aligned with our business and sustainability strategies and published on the company's website. The Board of Management, enabling functions, Divisions and Market Groups are advised on tax matters by Group tax to ensure both the needs of the business and tax needs are balanced. The company also participates in (inter)national groups of experts to represent its interests.

In addition, the company has corporate requirements for the management of the company's legal entities in line with tax legislation.

For further details on financial risks please refer to note 9, Income tax, note 25, Post-employment benefits and note 29, Financial risk management, of this Annual Report.

12.4 Changes in 2020

In 2020 Signify completed two acquisitions. Integration into the risk management framework is important, especially so for large acquisitions such as Cooper Lighting. For Cooper Lighting, the following actions were taken:

- The integrity code was deployed.
- Cooper Lighting employees have been included in the Signify compliance training schedule.
- A multi-year plan to integrate Cooper Lighting into the internal control framework was made.
- Self-assessment was deployed for key controls.
- Cooper Lighting entities have been included in the certification process.

12.5 Key Risks

The key risks to achieving Signify's 2021-2023 mid-term targets, the potential impact of each risk, the mitigation strategies and actions deployed, are described in the following table. These risks can, separately or in combination, have a material adverse effect on Signify's business, strategy, financial condition, results from operations, cash flow, reputation or prospects.

Technological change

Risk description

The transition to LED lighting is characterized by the increasing importance of digital capabilities and technology such as the adoption of connected lighting systems which may drastically change the business environment. At present, a relatively small part of the worldwide installed base of light points is connected and this new market is in its initial stage.

A cornerstone of Signify's strategy is to focus on and invest in its connected lighting offerings such as its InterAct offerings for the professional market and Hue, WiZ smart lighting offerings for the consumer market and to develop new business models, in particular through value-added service offerings.

The risk is that the extent and speed of the adoption of connected lighting systems and services does not develop as anticipated or Signify is unable to successfully implement its strategy in connected lighting.

Mitigation actions

Signify is actively developing and investing in technology platforms and software applications to bring (more advanced) connected lighting systems to the market. Part of this strategy is to focus strongly on interoperability of its applications and incorporate different connectivity technologies in its connected lighting portfolio to be able to address different needs in the market.

Further, Signify plays a leading role in developing the market for connected lighting systems and in building awareness of the benefits of connected lighting and in forging partnerships and alliances. To capture this new value opportunity, Signify's systems and product teams are developing innovative services around connected lighting.

Competition

Risk description

Signify's market-leading position could be challenged by competition from both existing and potential new competitors.

The LED lighting market has attracted many new competitors (particularly from Asia) with low-priced offerings and is at present highly competitive. This has led to increasing commoditization of offerings as well as price pressure on LED products.

Increased commoditization as well as continued significant price pressure on LED products and offerings may impact revenues and profitability, in particular, if Signify fails to manage costs.

With the shift to connected lighting, the risk is that non-lighting players with broad technology platforms may enter and disrupt the lighting market.

Mitigation actions

To counter aggressive commoditization by Asian players, Signify`s strategy is to create tiered offerings, including B-brand and private label.

Further, the company continuously invests in innovation, strengthens its digital (sales) capabilities and runs cost saving initiatives to keep its cost base competitive.

In addition, Signify can make use of the Philips brand which has a strong global reputation and brand preference to drive sales.

Finally, Signify has a global sales and distribution network along its geographical market groups which it believes would be difficult for a competitor to replicate. This network allows the company to quickly roll-out innovative products and services on a global scale.

Global political and economic instability - COVID-19

Risk description

There continues to be significant instability in the global economy and in the global political landscape.

Polarization and trade protectionism as well as political changes may disrupt our operations and, ultimately, our sales. Such developments may impact Signify significantly as it has commercial activities and operations in almost every country.

Adverse economic conditions may result in lower customer demand. In particular, the impact of the COVID-19 pandemic had an adverse effect on the company's sales in 2020. Uncertainty remains about how quickly the general lighting market may recover to (pre-COVID-19) 2019 levels. This is relevant to Signify as a large part of its business is exposed to the construction and renovation activity which has significantly been impacted by government lockdowns and may take longer to recover.

Mitigation actions

Signify closely follows (geo)political and economic developments and takes these into account in its medium-term operational planning.

Further, Signify actively engages in global forums focused on the benefits of globalization and is committed to highly credible industry organizations globally to support the stabilization of global trade. To mitigate the risk on supply chain efficiencies and tariff impacts, Signify can leverage its global (manufacturing) footprint and makes adjustments to its sourcing base when needed to address geopolitical tensions and trade protectionism.

In view of continued COVID-19 uncertainty, to avoid supply chain disruptions, actions are launched throughout the organization which primarily are focused on diversifying the supply base.

Re-allocation of resources

Risk description

To remain competitive and free up resources to fund investments to improve its growth profile, Signify must continuously focus on managing and reducing its cost base through cost-saving initiatives while at the same time ensuring investments in growth opportunities are not jeopardized. Careful balancing will be needed.

Mitigation actions

These initiatives are executed via enhanced programs and are continuously monitored. Critical projects are reviewed by the Board of Management.

All changes made to the organization are closely monitored to ensure that they are implemented in a sustainable manner and do not adversely impact Signify's critical business processes and service levels.

The initiatives to reduce costs and re-allocate resources to high priority areas include streamlining the workforce, reducing its head office costs, introducing greater efficiencies and re-allocating resources to fund its digital roadmap, improving its IT systems, making changes in the go-to-market approach and production footprint, making investments in new technologies and developing new organizational capabilities.

Supply disruption

Risk description

Signify increasingly depends on external suppliers and depends for a large part on the production of components and LED products from Asian countries.

The risk of this dependency is that suppliers are not able to deliver (raw) materials, components or services on time and meet demand in a timely manner. Next to this, the production and shipping of products and components could be interrupted by conflicts, natural disasters, such as earthquakes, typhoons and floods caused by climate change or pandemic diseases.

Increasing geopolitical tensions and trade protectionism, such as local manufacturing requirements, may disrupt the company's operations. This may limit the company's ability to leverage and draw efficiencies from its global (manufacturing) footprint.

Mitigation actions

Signify has built a supplier risk plan in which risky suppliers are identified using criteria that take into account the geographical location of the supplier, the technologies and processes used. In addition, it actively enhances its regional supply base to ensure that the majority of components needed for manufacturing products for a particular region are sourced regionally as opposed to being sourced them from remote locations.

Further, Signify requires its sites to have a robust business continuity plan for any large-scale events which can severely impact the business, including sourcing from alternative suppliers and increasing strategic inventories. Finally, regular risk assessments are carried out at individual plant level, including the assessment of risks related to natural catastrophes perils and water scarcity. These assessments are also performed at locations of business-critical suppliers and increasing strategic inventories.

Innovation

Risk description

The high speed of innovation and the increasing importance of digital technology in the general lighting industry requires Signify to continuously spend considerable resources on developing new products and solutions. It also requires developing different capabilities and competences to commercialize its innovations successfully. In particular, this is important in a fast-changing market in which the company must continuously address the needs of local customers to introduce locally relevant new products and solutions ahead of competition.

The risk is that the company fails to bring new products and solutions to the markets in a timely fashion and commercialize its innovations successfully. Hence, the expected benefits of these investments may not outweigh the costs to the company.

Mitigation actions

Signify invests significantly in its R&D activities. It has dedicated R&D activities organized throughout the company to support its divisions in developing and realizing near-term innovation roadmaps and to develop longer-term innovations mainly focusing on areas such as connected lighting systems, software and digital applications.

In 2020 Signify adapted its business structure to enable a stronger customer focus and enhanced specialization to further increase execution speed. Finally, dedicated go-to-market channels and tailored marketing approaches are in place with the aim to successfully introduce new offerings commercially.

Cyber-attacks and security breaches

Risk description

As Signify becomes more digitalized, more devices and systems are connected online resulting in a wider attack surface across the enterprise IT and Operational Technology (OT) that could be impacted.

Should a successful cyber-attack materialize, the processes, services and systems that allow the organization to continue to operate could be impacted resulting in operational disruption. Further, a cyber-attack could cause a data breach where sensitive, protected, personal or confidential data held by Signify is leaked or stolen.

Next to this, an increasing number of our products and solutions are delivered with Internet of Things (IoT) capabilities and accompanying (cloud-based) software applications. This is increasing the exposure to cyber security risk.

Mitigation actions

We have established a security board where corporate security strategy is approved and monitored. Each year mandatory security and data protection & privacy awareness trainings are conducted.

IT security measures are in place to prevent, detect and respond to attackers from causing damage to systems and gaining access to critical data, systems and services. Business continuity plans are in place in the event of non-availability of IT systems.

Signify is developing its products, software applications and securing the ecosystem in conformity to security standards and best practices (ISA/IEC62443, ISO2700xNIST and CIS).

Digitalization

Risk description

It is a strategic priority of Signify to digitalize its go-to-market approach and business processes by building technology platforms that shall address customer needs in a connected world and support the company's growth.

Therefore, digitization and automation of the company's commercial and supply chain processes are the most significant developments Signify needs to focus on. These developments imply an opportunity to provide higher levels of service and product offerings to its customers, while also optimizing workflows and increasing productivity.

Failure to keep up, adapt and use these new technologies will lead to a gradual loss of market share and earnings.

Mitigation actions

Signify is actively developing and investing in technology-enabled business platforms and has launched a multi-year digitalization program. These investments are focused on digitization of customer interfaces such as Hue 3.0 and MySignify, internal business processes and IoT platforms such as Interact.

Next to that, several initiatives are deployed throughout the organization to reskill employees to boost digital competencies. Finally, the digital marketing team has been upgraded to strengthen the digital go-to-market approach.

New organizational capabilities

Risk description

Signify needs to build the capabilities and culture required to transform its business and deliver on its strategy, including the ambition to grow its connected lighting business and grow in new areas such as agricultural, solar, UV-C lighting and 3D printing.

New capabilities are particularly relevant in the areas of digital, software development, marketing and consultative selling. Next to this, bringing advanced connected lighting offerings to the market requires highly specialized (technical) personnel.

Failure to successfully develop these new and different capabilities may have a significant impact on the company achieving its long-term strategic goals.

Mitigation actions

Signify invests in the professional and career development of personnel through learning initiatives as well as through dedicated talent management programs which identify top talents early in their career and plan for development.

In addition, actions were launched to upscale commercial skills and capabilities in cooperation with learning@signify Academy.

Finally, talent acquisition programs are in place to attract new employees with a specific focus on those (technical) areas where the company sees capability needs that cannot be developed internally.

Acquisitions and integrations

Risk description

Acquisitions are an important part of Signify's strategy. These acquisitions are focused to grow the business, strengthen its supply chain or acquire complementary technologies or new capabilities.

Acquisitions, particularly an acquisition of the size of Cooper Lighting in 2020, always entail integration risk which in turn could result in (cost) synergies, strategic advantages and economies of scale, being delayed or not fully realized.

Mitigation actions

Signify stresses the importance of any potential acquiree matching its business model and strategic direction. In the due diligence process it makes sure to involve the right people from the organization, considering all vital aspects of the business.

Immediately after the Cooper Lighting acquisition, a multidisciplinary team with members from both organizations was put together and has been working with the aim of ensuring a smooth integration of Cooper Lighting back-office activities into Signify's organization.

Climate change

Risk description

The impact of climate change generates opportunities and challenges for Signify's existing and future lighting products and solutions portfolio. In line with that, Signify expects continued and increased attention to climate change from all sectors of society. This attention has led to additional regulations designed to reduce greenhouse gas (GHG) emissions and adoption of more energy-efficient products and solutions.

As lighting represents a significant portion of global electricity consumption, the lighting industry will need to adapt to changing environmental regulations. One example is the phasing out of conventional lighting technologies, such as halogen lighting technologies in 2018 by the EU.

Inability to meet customer expectations related to the energy efficiency potential of the company's LED lighting products and solutions could adversely affect the company reputation and brand.

Mitigation actions

As part of its Brighter Lives, Better World sustainability program, Signify is taking measures to manage climate risks and adapt its businesses.

Signify is committed to 100% carbon neutral operations, 100% renewable electricity and to increase energy efficiency of its products, systems and services to drive the transition to a low-carbon economy. Consequently, energy efficiency and circularity are important aspects of new products and as such are part of the company's product creation process.

13 Statement of the Board of Management

The Board of Management has prepared this Annual Report in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), the statutory provisions of Part 9, Book 2 of the Dutch Civil Code and additional Dutch disclosure requirements for annual reports.

To the best of our knowledge:

- The Consolidated financial statements and Signify N.V. financial statements included in this Annual Report give a true and fair view of the assets, liabilities, financial position and profit or loss of Signify N.V. and its consolidated undertakings;
- Based on the current state of affairs and the company's strategic plan, which forecasts among others the company's future cash flows, it is justified that the financial reporting has been prepared on a going concern basis;
- The management report included in this Annual Report gives a true and fair view concerning the position on the balance sheet date and the development and performance of the business of Signify N.V. and the undertakings included in the consolidation taken as a whole during the financial year;
- The management report included in this Annual Report describes the principal risks and uncertainties that the company faces, and those that are relevant to the expectation of the company's continuity for the period of twelve months after the date of publication of this Annual Report.

The Board of Management is responsible for the establishment and adequate functioning of a system of governance, risk management and internal controls in the company. It reports on and is accountable for internal risk management and control systems to the Supervisory Board and its Audit Committee. The company has implemented a risk management and internal control system designed to provide reasonable assurance that strategic objectives are met by creating focus, integrating management control over the company's operations, ensuring compliance with applicable laws and regulations and by safeguarding its assets and the reliability of its financial reporting and its disclosures.

The company has designed its internal control system based on the Internal Control-Integrated Framework (2013) established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The company's risk management approach is embedded in its periodic business planning and review cycle and forms an integral part of business management. On the basis of risk assessments, management determines the risks and appropriate responses related to the achievement of business objectives and critical business processes. Risk factors and the risk management approach are described in more detail in chapter 12, Risk factors and risk management, of this Annual Report. Audit results, relevant investigative activities as well as significant changes and improvements in the company's risk management and internal control system are discussed with the Audit Committee and the Supervisory Board.

With respect to financial reporting a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with internal control over financial reporting. Internal representations received from management, regular management reviews, reviews of the design and effectiveness of internal controls and reviews in company and Division, Market and Function Audit Committees are integral parts of the company's risk management approach.

On the basis of the above, we confirm that:

- The management report provides sufficient insights into failings, if any, in the effectiveness of the internal risk management and control systems; and
- The internal risk management and control systems provide a reasonable level of assurance that the financial reporting and tax included in this Annual Report does not contain any errors of material importance.

It should be noted that the above does not imply that these systems and procedures provide certainty as to the realization of operational and financial business objectives, nor can they prevent all misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations.

February 23, 2021

Board of Management
Eric Rondolat
Javier van Engelen
Maria Letizia Mariani

Corporate statements

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14 Consolidated financial statements

Introduction

The audited Consolidated financial statements including the notes thereon have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code.

All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective 2020 have been endorsed by the EU; consequently, the accounting policies applied by Signify also comply with IFRS as issued by the IASB.

The following chapters of this Annual Report:

- 3, Creating value
- 4, Corporate performance
- 6, Board of Management
- 7, Supervisory Board
- 8, Supervisory Board report, sub-section 8.3.2 Corporate Governance and Nomination & Selection Committee
- 10, Corporate governance
- 11, Investor Relations, section 11.2, Shareholder base
- 12, Risk factors and risk management
- 13, Statement of the Board of Management
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form the management report within the meaning of section 2:391 of the Dutch Civil Code.

For 'Additional information' within the meaning of section 2:392 of the Dutch Civil Code, please refer to sections 4.3, Proposed distribution to shareholders, 10.1, Signify organization and chapter 17, Combined independent auditor's report, of this Annual Report.

Ernst & Young Accountants LLP has issued an independent auditor's report on the Consolidated financial statements and the Company financial statements, in accordance with Dutch law, including the Dutch standards on auditing, of Signify N.V., which is set out in chapter 17, Combined independent auditor's report, of this Annual Report.

14.1 Consolidated statement of income

Consolidated statement of income
in millions of EUR unless otherwise stated
For the years ended December 31

	Note	2019	2020
Sales	3	6,247	6,502
Cost of sales		(3,940)	(4,004)
Gross margin		**2,307**	**2,499**
Selling, general and administrative expenses		(1,637)	(1,781)
Research and development expenses		(283)	(307)
Impairment of goodwill	15	–	–
Other business income	7	22	12
Other business expenses	7	(8)	(7)
Income from operations	4	**401**	**416**
Financial income	8	17	18
Financial expenses	8	(60)	(72)
Results from investments in associates		1	–
Income before taxes		**360**	**362**
Income tax expense	9	(93)	(27)
Net income		**267**	**335**
Attribution of net income for the period:			
Net income (loss) attributable to shareholders of Signify N.V.		262	325
Net income (loss) attributable to non-controlling interests		5	9
Earnings per common share attributable to shareholders	10		
Weighted average number of ordinary shares outstanding used for calculation (in thousands):			
• Basic		126,028	126,223
• Diluted		127,626	129,692
Net income attributable to shareholders per ordinary share in EUR:			
• Basic		2.08	2.58
• Diluted		2.06	2.51

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

14.2 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income in millions of EUR
For the years ended December 31

	2019	2020
Net income	**267**	**335**
Pensions and other post-employment plans:		
• Remeasurements	6	11
• Income tax effect on remeasurements	(3)	(1)
Total of items that will not be reclassified to the Income statement	**4**	**11**
Currency translation differences:		
• Net current period change, before tax	38	(395)
• Income tax effect	(1)	-
Net investment hedge:		
• Net current period change, before tax	-	42
• Income tax effect	-	1
Cash flow hedges:		
• Net current period change, before tax	1	31
• Income tax effect	1	(7)
Total of items that are or may be reclassified to the Income statement	**39**	**(328)**
Other comprehensive income	**42**	**(318)**
Total comprehensive income	**309**	**17**
Total comprehensive income attributable to:		
• Shareholders of Signify N.V.	304	16
• Non-controlling interests	6	1

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

14.3 Consolidated statement of financial position

Consolidated statement of financial position in millions of EUR
As at December 31

	Note	2019	2020
Non-current assets			
Property, plant and equipment	3, 13	644	708
Goodwill	3, 15	1,943	2,251
Intangible assets, other than goodwill	3, 15	443	775
Investments in associates	12	14	12
Financial assets	29	49	55
Deferred tax assets	9	384	473
Other assets	20	64	60
Total non-current assets		**3,541**	**4,334**
Current assets			
Inventories	17	874	885
Other assets	20	161	171
Derivative financial assets	29	16	104
Income tax receivable	9	48	39
Trade and other receivables	18	1,223	1,140
Cash and cash equivalents	29	847	1,033
Assets classified as held for sale		4	3
Total current assets		**3,174**	**3,376**
Total assets		**6,715**	**7,710**

14.3 Consolidated statement of financial position (continued)

		2019	2020
Equity			
Shareholders' equity	22	2,181	2,196
Non-controlling interests	12	142	124
Total equity		**2,324**	**2,321**
Non-current liabilities			
Debt	23	1,369	2,221
Post-employment benefits	25	437	390
Provisions	24	216	224
Deferred tax liabilities	9	28	22
Income tax payable	9	52	108
Other liabilities	21	135	159
Total non-current liabilities		**2,236**	**3,123**
Current liabilities			
Debt, including bank overdrafts	23	96	86
Derivative financial liabilities	29	20	44
Income tax payable	9	22	20
Trade and other payables	19	1,684	1,731
Provisions	24	149	172
Other liabilities	21	183	213
Liabilities from assets classified as held for sale		2	-
Total current liabilities		**2,155**	**2,266**
Total liabilities and total equity		**6,715**	**7,710**

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

14.4 Consolidated statement of cash flows

Consolidated statement of cash flows in millions of EUR
For the years ended December 31

	Note	2019	2020
Cash flows from operating activities			
Net income		267	335
Adjustments to reconcile net income to net cash provided by operating activities:		586	606
• Depreciation, amortization and impairment of non-financial assets	6	288	332
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates		-	-
• Net gain on sale of assets	7	(13)	(1)
• Net interest expense on debt, borrowings and other liabilities	8	15	31
• Income tax expense	9	93	27
• Additions to (releases of) provisions	24	154	152
• Additions to (releases of) post-employment benefits	25	24	20
• Other items		25	46
Decrease (increase) in working capital:		110	239
• Decrease (increase) in trade and other receivables	18	83	211
• Decrease (increase) in inventories	17	35	44
• Increase (decrease) in trade and other payables	19	21	(50)
• Increase (decrease) in other current assets and liabilities		(30)	35
Increase (decrease) in other non-current assets and liabilities		(11)	15
Utilizations of provisions	24	(189)	(162)
Utilizations of post-employment benefits	25	(57)	(35)
Net interest and financing costs paid		(17)	(33)
Income taxes paid		(90)	(73)
Net cash provided by (used for) operating activities		**599**	**891**
Cash flows from investing activities			
Net capital expenditures:		(70)	(75)
• Additions of intangible assets	15	(29)	(32)
• Capital expenditures on property, plant and equipment	13	(58)	(67)
• Proceeds from disposal of property, plant and equipment		16	25
Net proceeds from (cash used for) derivatives and other financial assets		5	(4)
Purchases of businesses, net of cash acquired	11	(95)	(1,303)
Proceeds from sale of businesses, net of cash disposed of		15	2
Net cash provided by (used for) investing activities		**(145)**	**(1,379)**

14.4 Consolidated statement of cash flows (continued)

	Note	2019	2020
Cash flows from financing activities			
Dividend paid		(165)	(17)
Proceeds from issuance of debt	23	12	3,744
Repayment of debt	23	(127)	(2,932)
Purchase of treasury shares		(6)	(38)
Net cash provided by (used for) financing activities		**(286)**	**757**
Net cash flows		**168**	**269**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts		7	(80)
Cash and cash equivalents and bank overdrafts at the beginning of the period		664	840
Cash and cash equivalents and bank overdrafts at the end of the period	29	**840**	**1,030**
Non-cash investing and financing activities:			
Additions of fixed asset by means of new leases		42	24

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

14.5 Consolidated statement of changes in equity

Consolidated statement of changes in equity in millions of EUR

	Share capital	Share premium	Retained earnings	Currency translation differ- ences	Cash flow hedges	Treasury shares	Total share- holders' equity	Non- controlling interests	Equity
Balance as at January 1, 2019	**1**	**2,179**	**(48)**	**(29)**	**(9)**	**(65)**	**2,030**	**78**	**2,108**
Net Income	-	-	262	-	-	-	262	5	267
Other comprehensive income (loss)	-	-	4	35	2	-	41	1	42
Total comprehensive income (loss)	-	-	**266**	**35**	**2**	-	**304**	**6**	**309**
Movement in non-controlling interests	-	-	-	-	-	-	-	60	60
Dividend distributed	-	-	(164)	-	-	-	(164)	(1)	(165)
Purchase of treasury shares	-	-	-	-	-	(6)	(6)	-	(6)
Delivery of treasury shares	-	(2)	(1)	-	-	3	-	-	-
Share-based compensation plans	-	18	-	-	-	-	18	-	18
Balance as at December 31, 2019	**1**	**2,195**	**53**	**7**	**(7)**	**(68)**	**2,181**	**142**	**2,324**
Balance as at January 1, 2020	**1**	**2,195**	**53**	**7**	**(7)**	**(68)**	**2,181**	**142**	**2,324**
Net Income	-	-	325	-	-	-	325	9	335
Other comprehensive income (loss)	-	-	11	(343)	24	-	(309)	(9)	(318)
Total comprehensive income (loss)	-	-	**336**	**(343)**	**24**	-	**16**	**1**	**17**
Movement in non-controlling interests	-	-	-	-	-	-	-	1	1
Dividend distributed	-	-	-	-	-	-	-	(20)	(20)
Purchase of treasury shares	-	-	-	-	-	(38)	(38)	-	(38)
Delivery of treasury shares	-	(30)	(2)	-	-	32	-	-	-
Share-based compensation plans	-	34	-	-	-	-	34	-	34
Income tax share-based compensation plans	-	2	-	-	-	-	2	-	2
Balance as at December 31, 2020	**1**	**2,201**	**387**	**(337)**	**17**	**(74)**	**2,196**	**124**	**2,321**

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

14.6 Notes to the Consolidated financial statements

In millions of EUR unless otherwise stated

1 Basis of preparation

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.

Basis of preparation

The Consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. The Consolidated financial statements are prepared by the Board of Management of the Company and authorized for issue on February 23, 2021 and will be submitted for adoption to the Annual General Meeting of Shareholders on May 18, 2021.

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial instruments, including derivatives (measured at fair value), assets held for sale (measured at the lower of carrying amount and its fair value less costs to sell), and defined-benefit pension plans (plan assets are measured at fair value).

Functional and presentational currency

The Consolidated financial statements are presented in euros (EUR), which is the functional and presentation currency of Signify N.V. All amounts are presented in EUR million and have been rounded to the nearest EUR 100,000 unless otherwise stated. Due to rounding, amounts may not add up to totals provided.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates inherently contain a degree of uncertainty. Actual results may differ from these estimates.

These estimates and judgments are evaluated on an ongoing basis and are based on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that are considered reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Signify revises material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

The areas where the most significant judgments and estimates are made are goodwill, deferred tax asset recoverability, revenue recognition, impairments, provisions, employee benefit obligations, inventory valuation and obsolescence provision, estimation of loss allowance for expected credit losses, leases as well as fair value of derivatives, other financial instruments and assets and liabilities in business combinations. For further discussion on these significant judgments and estimates, reference is made to the respective accounting policies and notes within these Consolidated financial statements that relate to the above topics.

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 optimization.

Signify continues to closely monitor the development of the COVID-19 outbreak by analyzing the risks which the pandemic imposes for its financial results, position and cash flows and implementing mitigating actions promptly.

Further information and considerations regarding 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 identified a broad range of mitigating actions to preserve liquidity. These measures included, among others, savings in selling expenses, travel costs and procurement costs. This will continue to be a focus point of the organization in the coming years. For example, in January 2021, Signify communicated a further plan that aims to enhance our competitiveness by optimizing our cost base, making our central organization leaner and improving our performance culture. For further details, refer to note 30, Events after the balance sheet date.

Signify 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 in March 2020.

These measures supported Signify in generating cash flows from operating activities in 2020 of EUR 891 million, which ensures that Signify can meet its future obligations, including repayments to stakeholders communicated on January 13, 2021, such as EUR 350 million early repayment of debt in 2021, return contributions to employees who participated in the 2020 solidarity program, and an extraordinary dividend of EUR 170 million (EUR 1.35 per share) to its shareholders.

Goodwill

The negative impact of COVID-19 on the global economy resulted in Signify performing a goodwill impairment test in the second quarter. The annual test was performed in the fourth quarter of 2020.

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, including the recovery of the global lighting market from the COVID-19 pandemic.

Both the second and the fourth quarter goodwill impairment tests did not result in an impairment loss being recognized. For further details refer to note 15, Intangible assets.

Intangible assets, other than goodwill

For certain intangible assets included in cash-generating units the changes in the economic environment provided an indicator that the carrying amount of the asset may not be recoverable. Uncertainties in the market and volatility in the financial markets resulted in increased sensitivity in the recoverable amount of the related assets. For the cash-generating units for which an impairment trigger was identified, an impairment test was performed. In determining the recoverable amounts consideration was given to the uncertainties embedded in the discounted cash flow projections and the appropriateness of key assumptions used in light of the pandemic, which included increased uncertainties around forecasted revenues, profitability and other factors. Based on the tests performed no significant impairments were identified.

Inventories

Signify’s inventories are stated at the lower of cost or net realizable value. In determining the appropriate level of value allowance, inventory health in certain businesses and markets due to COVID-19 were considered. In addition, current and potential excess inventory levels were analyzed, incorporating revised expectations of future demand for these items. No material increase in the value allowance for inventory was identified as a result of these procedures compared to the allowance as of December 31, 2019.

Trade receivables

According to its accounting policy, Signify calculates the lifetime expected credit loss for Trade receivables utilizing a matrix model per country, where recoverability data and default probability per country are used as future-looking elements which address COVID-19 impact.

Collection of Trade receivables was strong in 2020, as a result, Signify's expected credit loss allowance as of December 31, 2020 has not increased materially when compared to the allowance as of December 31, 2019. Furthermore, the allowance for individually impaired receivables did not increase materially compared to the allowance as of December 31, 2019.

Post-employment benefits

COVID-19 impacted underlying assumptions of post-employment liabilities such as the interest rates and investment performance. Signify performed an updated quantification of the net defined benefit liability as at December 31, 2020 based on the most recent assumptions. Details of the underlying assumptions used can be found in note 25, Post-employment benefits.

Government support

In response to COVID-19, many governments provided support through incentives, changed tax policies aimed at deferring tax filings and payments and provided tax relief. Apart from applied payment deferrals on other taxes/levies, the impact of government support received is not significant.

Deferred taxes

In the context of COVID-19, Signify has also assessed whether it is still probable that deferred tax assets recognized on the balance sheet will be realized. No derecognition as a result of this assessment was recorded.

Changes in accounting policy

Changes in reporting segments

Operating segments are components of Signify's business activities for which separate financial information is available and 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 four business groups (BG's) into three divisions:

- Division Digital Solutions (formerly BG Professional, including Cooper Lighting) offers luminaires, lighting systems and services for the Internet of Things to 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.

The financial impact per segment is disclosed in note 3, Information by segment and main country.

New and amended standards adopted by the group

Signify has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020:

- Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7
- Impact of the initial application of COVID-19 Related Rent Concessions Amendments to IFRS 16
- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business - Amendments to IFRS 3 Business Combinations
- Definition of Material - Amendments to IAS 1 and IAS 8.

Signify changed its accounting policies in accordance with the standards and amendments listed above. The changes did not have any significant impact on the amounts recognized in the prior period and current period.

New standards and interpretations not yet adopted

The following new accounting standards and interpretations have been published that are mandatory for January 1, 2021 or later reporting periods and have not been adopted early by Signify:

- IFRS 17 Insurance Contracts
- Amendments to IAS 1 - Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 - Business Combinations

- Amendments to IAS 16 - Property, Plant and Equipment
- Amendments to IAS 37, Provision, Contingent liabilities and Contingent Assets
- Annual Improvements 2018 -2020
- Amendments to IFRS 4 - Insurance Contracts
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

These standards are not expected to have a material impact on Signify in the current or future reporting periods and on foreseeable future transactions.

2 Significant accounting policies

General

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Signify.

Basis of consolidation

The Consolidated financial statements comprise the financial statements of Signify N.V. and all subsidiaries it controls (i.e. when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee). The existence and effect of potential voting rights are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated in the Consolidated financial statements.

Business combinations

Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized at the acquisition date, which is the date on which control is transferred to Signify. Signify measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Loss of control

Upon the loss of control, Signify derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the Consolidated statement of income. If Signify retains any interest in the previous subsidiary, then such interest is measured at fair value at the date the control is lost.

Investments in associates and joint ventures

Signify's investments in associates are accounted for using the equity method. Investments in associates are recognized initially at cost. Investments in associates are those entities in which Signify has significant influence, but no control or joint control, over the financial and operating policies.

Foreign currency translation

Items included in the financial statements of each of the Signify entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated statement of income, except when deferred in Other comprehensive income as qualifying cash flow hedges. The exchange differences are presented as part of Cost of sales, except for tax items and Financial income and expense, which are recognized in the same line item as they relate to.

Upon consolidation, the assets and liabilities of non-euro entities, including goodwill and fair value adjustments at the time of the acquisition, are translated into euros at the year-end rates of exchange. The items of the statement of income of foreign activities, excluding foreign operations in hyperinflationary economies, are translated at the rates which are approximating the rates at the dates of transactions. The resulting translation differences of the net investments in foreign operations are recognized in other comprehensive income.

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognized at the point in time when the customer obtains control over 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 and incoterms. 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. Payments made to customers for distinct goods or services are excluded from the revenue recognized and recorded as part of Selling, general and administrative expenses. Signify does not adjust the transaction price for the effects of 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. This applies to most sales transactions. 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 and rebates 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 considering the historical pattern of actual returns. Return policies are typically based on customary return arrangements in local markets.

Sale of services

Signify regards cloud-enabled services, extended warranty and lifecycle services as separate performance obligations. The transaction price is allocated to the different performance obligations based on the relative stand-alone selling prices. Revenue for these services is recognized over time when the performance obligation is satisfied, which in most cases is proportionally over the duration of the service period.

Transactions with multiple performance obligations

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. For these transactions, Signify accounts for individual goods and services, including any goods or services provided for free, separately in case they are distinct. 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. 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.

Contract assets and liabilities

Contract assets mostly comprise of unbilled positions, where Signify has, partially or in full, satisfied performance obligations but not yet billed the customer. These are recorded under either Other current assets or Other non-current assets. The contract assets are transferred to receivables when the rights become unconditional.

Contract liabilities consist of deferred income and payments received in advance and are recorded under Other current liabilities and Other non-current liabilities. Deferred income includes balances related to royalties, extended warranty, life-cycle services as well as other services such as cloud-enabled services. Advances from customers mostly comprises payments received in advance for projects, for which Signify still needs to satisfy (part of) the performance obligations.

Other

Signify may incur costs for obtaining a contract, including payments made to agents that depend on winning the contract. Signify applies the practical expedient from IFRS 15, 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 were recognized in the balance sheet.

Income and expenses

Signify applies accrual accounting. This means that expenses are recognized when incurred and Income is recognized when earned, irrespective of the actual cash flows.

Shipping and handling expenses related to sales to third parties are generally recorded as Selling, general and administrative 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 Sales.

Advertising and promotion costs and costs related to the brand license fee are included in Selling, general and administrative expenses.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, considering the stage of completion and the normal capacity of production facilities. Costs of idle facility and abnormal waste are expensed. The cost of inventories is determined using the first-in, first-out (FIFO) method. Due to price erosion and technological developments, inventory valuation requires forward looking estimates on future sales levels, future price erosion and related expected gross margin percentages. On each reporting date, management performs an analysis of net realizable values and determines the lower of cost and net realizable value to measure its inventories. The write-down is included in Cost of sales.

Financial instruments

Recognition

A financial asset or liability is recognized when Signify becomes party to a contract that is a financial instrument. Regular way purchases and sales of financial instruments are accounted for at the trade date. Initial measurement of financial assets and liabilities is at fair value. Dividend income is recognized when declared.

Classification and measurement

Classification and subsequent measurement of financial assets depends on Signify's business model for managing the financial assets and the contractual terms of the cash flows and solely payments of principal and interest (SPPI) test. Signify performs the analysis instrument by instrument, which utilizes contract details, business model and objective of the instrument in order to classify financial asset or liability into one of the following categories:

- Financial assets at amortized cost as the business model for these instruments is hold-to-collect contractual cash flows. These are mainly Trade and Other Receivables, which are subsequently measured at amortized cost using the effective interest method, less loss allowance and net of discounts given or agreed if the offset requirements are met.
- Financial assets at fair value via profit and loss (FVPL), as the business model for these instruments is held for trading. Derivatives and other financial assets at fair value are Included in this category.
- Financial assets at fair value through other comprehensive income (FVOCI) with no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment as the business model for these instruments is hold-to-collect contractual cash flows and sell. Minor equity investments are included in this category.
- Financial liabilities are all classified as subsequently measured at amortized cost, except for financial liabilities at fair value via profit and loss, for example derivatives, contingent consideration in a business acquisition, to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in profit or loss.

Netting of financial assets and liabilities

Signify presents financial assets and financial liabilities on a gross basis as separate line items in the Consolidated statement of financial position unless the offset criteria are met.

The offsetting criteria are met if Signify has a legal right to offset financial assets with financial liabilities and if Signify intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. To meet the requirement, the right of set-off should be available today and not contingent on a future event and it should be legally enforceable for all counterparties in a normal course of business, as well as in the event of default, insolvency or bankruptcy.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired

or

- Signify has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) Signify has transferred substantially all the risks and rewards of the asset, or (b) Signify has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When Signify has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, Signify continues to recognize the transferred asset to the extent of its continuing involvement. In that case, Signify also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that Signify has retained.

Impairment of trade receivables and contract assets

Signify estimates lifetime expected loss allowance for all Trade receivables and Contract assets via calculating the expected credit losses. Trade receivables and contract assets are grouped based on shared credit risk characteristics and the days past due whereby the lifetime expected credit loss on the Trade receivables is recognized based on a matrix model calculated per country, which utilizes historical recoverability data and default probability per country.

As soon as individual trade accounts receivable can no longer be collected in a normal course of business and are expected to result in a loss, they are designated as doubtful trade accounts receivable and valued at the expected collectible amounts. They are written off when they are deemed to be uncollectable because of bankruptcy or other form of receivership at the debtors. Any previously recognized expected loss is offset against the carrying amount of such trade receivable and the difference is taken as a loss accounted for within Selling, general and administrative expenses.

Impairment of other financial assets

Signify assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost. Signify determines impairment amount based on the three stages of credit risk deterioration. The criteria to pass on to the next stage of the credit deterioration Is established for individual financial assets or group of financial assets with similar characteristics, considering credit risk profile of the counterparty, historical default data and macroeconomic factors.

Derivatives and hedge accounting

At inception of the hedge relationship, Signify documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. Signify documents its risk management objective and strategy for undertaking its hedge transactions.

For foreign currency forwards, Signify designates the spot component of the change in fair value in cash flow hedge relationships. The spot component is determined with reference to the relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as forward points. It is discounted, where material. Changes in the fair value related to forward points are continuously recognized in the statement of profit or loss.

Signify hedges its investments in certain subsidiaries by entering derivatives which mitigate the foreign currency translation risk arising from the subsidiaries net assets. Such hedge is accounted for as a net investment hedge. Signify designates full instrument in the hedge relationship. The result of hedging of the translation risk, using net investment hedges is recognized in the Currency translation differences within equity, as can be seen in the Consolidated statement of comprehensive income as long as the hedge is effective.

Signify measures all derivative financial instruments at fair value derived from market prices of the instruments or calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. These calculations are tested for reasonableness by comparing the outcome of the internal valuation with the valuation received from the counterparty.

Signify monitors that the economic relationship between the hedged item and hedging instrument and hedge ratio is the same as the one Signify uses for the risk management purposes. A prospective effectiveness test is performed to prove that the hedge is effective. For the prospective effectiveness test Signify utilizes the dollar offset method.

If the hedge ratio for risk management purposes is no longer optimal due to the different timing or amount of the underlying transaction, but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, Signify performs re-balancing of the hedge relationship by adjusting either the volume of the hedging instrument or the volume of the hedged item, so that the hedge ratio aligns with the ratio used for the risk management purposes. Gains and losses that were accumulated in equity related to an ineffective portion of hedge, Signify records immediately in the Consolidated statement of income when such ineffectiveness occurs.

The derivatives related to transactions are, for hedge accounting purposes, split into hedges of on-balance-sheet accounts receivable/payable and forecasted sales and purchases. Gains or losses arising from changes in fair value of derivatives are recognized within the Cost of sales in the Consolidated statement of income, except for derivatives that are effective and qualify for cash flow hedge accounting which are recorded in Other comprehensive income until the Consolidated statement of income is affected by the variability in cash flows of the designated hedged item. Changes in the fair value of hedges related to intercompany loans and deposits are recognized within Financial income and expenses in the Consolidated statement of income.

The derivatives used by Signify can be subject to master netting and set-off agreements with financial counterparties. In case of certain termination events, under the terms of these Master Agreements, Signify can terminate the outstanding transactions and aggregate their positive and negative values to arrive at a single net termination sum (or close-out amount). This contractual right is, amongst others, subject to the following:

- The right may be limited by local law if the counterparty is subject to bankruptcy proceedings.
- The right applies on a bilateral basis.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the Consolidated statement of income except to the extent that it relates to items recognized directly within equity or in Other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially-enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized, using the balance sheet method, for the expected tax consequences of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax liabilities for withholding taxes are recognized for subsidiaries in situations where the income is to be paid out as dividend in the foreseeable future and for undistributed earnings of unconsolidated companies to the extent that these withholding taxes are not expected to be refundable or deductible.

Changes in tax rates are reflected in the period when the change has been enacted or substantially enacted by the reporting date.

Deferred tax assets

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The evaluation of the recoverability of deferred tax assets requires judgment about the future taxable profitability of the legal entity holding the tax loss carry forward. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A lack of future taxable profits or taxable profits below the level of current estimates, may cause deferred tax assets to be impaired.

The ultimate tax effects of transactions may be uncertain for a considerable period of time, requiring management to estimate the related current and deferred tax treatments. In assessing the uncertainty, Signify considers whether it is probable that a taxation authority will accept or revise the uncertain tax treatment. Income tax payable include liabilities for uncertain tax positions which are recognized when it is probable that tax will be due. To the extent uncertain tax positions relate to deferred tax assets these are offset against each other. Actual tax assessments in relation to these uncertain tax positions may significantly deviate from estimates.

In determining the amount of current and deferred income tax, Signify takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes Signify to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the income tax expense in the period that such a determination is made.

Provisions

Provisions are recognized if, as a result of a past event, Signify has a present legal or constructive obligation, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of time value of money. The increase in the provision due to passage of time is recognized as interest expense. Significant judgment is required in determining the amount and probability of resources outflow and discount rates used to calculate the present value of this outflow. A liability is recognized if timing and amount of the settlement can be reliably estimated.

The accounting and presentation for some of Signify's provisions is as follows:

- Restructuring related provisions – The provision for restructuring relates to the estimated costs of programs that are planned and controlled by management that materially change the scope of our business or the manner in which it is conducted. A provision is recognized when Signify has a detailed formal plan for the restructuring and has raised a valid expectation that Signify will carry out the restructuring by starting to implement the plan, or by announcing the plan's main features to those affected by it.
- Environmental provisions – Measurement of liabilities associated with environmental obligations is based on current legal and constructive requirements. Liabilities and expected insurance recoveries, if any, are recorded separately. The carrying amount of environmental provisions is regularly reviewed and adjusted for new facts and changes in law.
- Product warranty – A provision for 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. The provision is based on historical warranty data and a weighing of possible outcomes against their associated probabilities.
- Litigation provisions – In relation to legal claim provisions and settlements, the relevant balances are transferred to Other liabilities at the point the amount and timing of cash flows are no longer uncertain. Settlements which are agreed for amounts in excess of existing provisions are reflected as payables.
- Onerous contract provisions – Provisions are recognized for a contract if it is onerous. The present obligation under the contract is measured and recognized as a provision. An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Guarantees

When the potential cash outflow is possible or remote and the risk covered by a guarantee is not a financial risk, Signify applies off-balance sheet treatment to such guarantees. For example, environmental remediation and legal proceedings. When the expectation of the cash outflow becomes probable such guarantees become provisions, see guidance above.

When guarantees are covering credit risk or any other financial risk they are accounted for as financial assets and liabilities.

Leases

Signify entered into contracts that conveys the right to use the identified asset and as such Signify accounted for these contracts as a lessee.

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, Signify recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include (in-substance) fixed payments (less any lease incentives), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by Signify and payments of penalties for terminating a lease, if the lease term reflects Signify exercising the option to terminate. In calculating the present value of lease payments, Signify uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

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

Goodwill

The measurement of goodwill at initial recognition is described under accounting policy, Business combinations, above. Goodwill is subsequently measured at cost, less accumulated impairment losses. In respect of investments in associates, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such investment is allocated to the investment as a whole.

Intangible assets other than goodwill

The fair value of other intangible assets, mainly customer relations, brand names and technology based intangibles acquired through business combinations is determined using a valuation technique that estimates the fair value of an asset based on market participants' expectations of the cash flows associated with that asset over its remaining useful life. Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Intangible assets are initially capitalized at cost, with the exception of intangible assets acquired as part of a business combination that are capitalized at their acquisition-date fair value.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized as an intangible asset if the product or process is technically and commercially feasible, cost can be reliably measured, Signify has sufficient resources and the intention to complete development.

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

Amortization of other intangible assets is reported in Selling, general and administrative expenses for brand names and customer relationships and in Cost of sales for technology-based and other intangible assets.

Expected useful lives of intangible assets excluding goodwill in years

Product development	1-5
Software	1-10
Technology	1-20
Customer relations	2-20
Brand names	2-20
Other	2-10

Impairment of goodwill and intangible assets not yet ready for use

Goodwill and intangible assets not yet ready for use are not amortized but tested for impairment annually and whenever impairment indicators require impairment testing. Signify performed and completed annual impairment tests in the last quarter of the financial year. Judgment is required when analyzing impairments triggers and tests of goodwill and intangible assets not yet ready for use. These analyses are based on the estimation of the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

An impairment loss is recognized in the Consolidated statement of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and fair value less costs of disposal. Value in use or fair value less costs to sell is measured as the present value of future cash flows expected to be generated by the asset via its use or sale with deduction of costs directly associated with its use or sale.

Impairment of non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets

Non-financial assets other than goodwill, intangible assets not yet ready for use, inventories and deferred tax assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset with the greater of its value in use and fair value less cost of disposal. Value in use is measured as the present value of future cash flows expected to be generated by the asset. If the carrying amount of an asset is deemed not recoverable, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the recoverable amount. The review for impairment is carried out at the level where cash flows occur that are independent of other cash flows.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if and to the extent there has been a change in the estimates used to determine the recoverable amount. The loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Consolidated income statement.

Pension and other employee benefits

Defined-benefit plans

Signify's retirement benefit obligation is calculated by an independent actuary, using the projected unit credit method. This calculation is performed separately for each plan by estimating the amount of the benefit that employees have earned in relation to their past services. The measurement date for all defined benefit plans is December 31. For plans with a relatively low defined-benefit obligation, Signify may decide to calculate the defined-benefit obligation with a lower frequency. The liability recognized in the Consolidated statement of financial position is the present value of these benefits at the end of the reporting period (defined-benefit obligation) less the fair value of plan assets. The defined-benefit obligation is determined by discounting the estimated future cash flows using a discount yield curve of high-quality corporate bonds with durations matching the terms of the benefits.

The increase in the defined-benefit obligation due to the passage of time and the expected return on plan assets, using the same interest rate as for the defined-benefit obligation, are included in the pension costs. Interest on the net defined-benefit obligation is recognized in Financing income and expenses in the Consolidated income statement.

Past-service costs are recognized immediately in the Personnel costs in the Consolidated income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity via other comprehensive income in the period in which they arise.

When a plan is changed, settled or when a plan is curtailed, the resulting change in the defined-benefit obligation that relates to past-service or the gain or loss on curtailment is recognized immediately in the statement of income. Signify recognizes gains and losses on the settlement of a defined-benefit plan when the settlement occurs.

Signify presents all net defined-benefit post-employment obligations on one line within non-current liabilities on the Statement of financial position.

Defined-contribution plans

Contributions to defined-contribution plans are recognized in the Consolidated income statement in Personnel expenses as incurred.

Termination benefits

Termination benefits are payable when employment is terminated by Signify before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Signify recognizes termination benefits when they are demonstrably committed to a termination and when they have a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Other employee benefits

Signify's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, such as jubilee entitlements. That benefit is discounted to determine its present value. Remeasurements are recognized in the Consolidated statement of income in the period in which they arise.

Short-term employee benefit obligations are measured on an undiscounted basis. Signify recognizes a liability and an expense for bonuses and incentives based on a formula that takes into consideration the profit attributable to Signify's shareholders after certain adjustments.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments with an original maturity of three months or less that are readily convertible into known amounts of cash. Bank overdrafts form an integral part of Signify's cash management and often fluctuate from being positive to overdrawn and are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Assets held for sale

Non-current assets (disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Non-current assets held for sale are carried at the lower of carrying amount or fair value less cost to sell. Comparatives in the balance sheet are not changed when a non-current asset is classified as held-for-sale.

Hyperinflationary economies

When the economy of a country in which Signify operates is deemed hyperinflationary and the functional currency of a Signify entity is the currency of that hyperinflationary economy, the financial statements of such entity are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and restatement of non-monetary items in the balance sheet, such as property, plant and equipment and inventory to reflect current purchasing power as at the period end using a general price index from the date when they were first recognized. Comparative amounts are not adjusted. Any differences arising were recorded in equity on adoption.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. Dividends are recognized as a liability in the period in which they are declared. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

Treasury shares that are reacquired are recognized at cost, representing the market price on the acquisition date, and deducted from equity until the shares are cancelled or reissued. When reissued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis. When treasury shares are delivered under Signify's share plans, the difference between the market price of the shares delivered and the cost is recorded in retained earnings, the market price is recorded in share premium. Upon cancellation, treasury shares are deducted from the share capital at their nominal value of EUR 0.01 per share and retained earnings for the difference.

Costs including dividend withholding tax in connection with Signify's purchase of treasury shares for capital reduction purposes are recorded in retained earnings.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The useful lives and residual values are evaluated annually. The costs of property, plant and equipment comprise of all directly attributable costs (including the cost of materials and direct labor). Government grants for assets are deducted from the cost of the related asset.

Depreciation of property, plant and equipment, other than freehold land, is calculated using the straight-line method taking into account the residual values and estimated useful lives and is primarily included in Cost of sales. Freehold land is not depreciated. Gains and losses on the sale of property, plant and equipment are included in Other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime of capacity.

The expected useful lives of property, plant and equipment are as follows:

Useful lives Pproperty, plant and equipment in years

Building	from 5 to 50
Machinery and installations	from 3 to 20
Other equipment	from 1 to 10
Right-of-use assets	from 2 to 20

Share-based compensation expenses

The cost of equity-settled transactions is determined by the fair value at the grant date using an appropriate valuation model.

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a corresponding increase in equity, over the vesting period of the award. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and Signify's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not considered when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of Signify's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Consolidated statement of cash flows

The Consolidated statement of cash flows is prepared using the indirect method. Cash flows from derivative instruments that are accounted for as cash flow hedges are classified in the same category as the cash flows from the hedged items. Cash flows from other derivative instruments are classified consistent with the nature of the instrument. Cash flows in foreign currencies have been translated into euros using the exchange rate at the date of the cash flow.

Earnings per share

Signify presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the Net income (loss) attributable to shareholders of Signify N.V. by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the Net income (loss) attributable to shareholders and the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprises of restricted shares, conditional shares and performance shares granted to employees.

Government grants

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

3 Information by segment and main country

Operating segments are components of Signify'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 Signify). The 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.

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

	Digital Solutions	Digital Products	Conventional Products	Other [4]	Inter-segment elimination	Signify
2020						
Sales to external customers	3,252	2,288	943	19		6,502
Sales including intersegment	3,255	2,455	949	20	(178)	6,502
Depreciation and amortization [1]	(81)	(30)	(30)	(71)		(211)
EBITA [2]	**230**	**277**	**149**	**(120)**		**536**
EBITA as a % of sales	7.1%	12.1%	15.8%			8.2%
Amortization [3]						(120)
Income from operations	**119**	**269**	**149**	**(122)**		**416**
Financial income and expenses						(54)
Results from investments in associates						0
Income before taxes						**362**
2019						
Sales to external customers	2,649	2,412	1,159	27		6,247
Sales including intersegment	2,652	2,558	1,166	28	(157)	6,247
Depreciation and amortization [1]	(52)	(35)	(32)	(71)		(189)
EBITA [2]	**222**	**222**	**168**	**(112)**		**500**
EBITA as a % of sales	8.4%	9.2%	14.5%			8.0%
Amortization [3]						(99)
Income from operations	**133**	**215**	**168**	**(114)**		**401**
Financial income and expenses						(43)
Results from investments in associates						1
Income before taxes						**360**

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.

As of Q2 2020, Signify changed its organizational structure (for more details refer to note 1, Basis of preparation). The financial impact for Division Digital Products (formerly BG LED & Home) is stated in the table below:

Changes to financial reporting in 2019

	Sales	Sales including inter-segment	Deprecia-tion and amortiti-zation[1]	EBITA[2]	EBITA as a % of sales
LED	1,891	2,036	(15)	217	11.5 %
Home	521	522	(19)	5	1.0 %
Digital Products	**2,412**	**2,558**	**(35)**	**222**	**9.2 %**

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”).

Sales between the segments mainly relate to the supply of goods. The pricing of such transactions is determined on an ‘arm’s length basis’.

Signify has no external customer that represents 10% or more of total sales.

Sales, tangible and intangible assets by main countries

	Sales		Tangible and intangible assets[1]	
	2019	2020	2019	2020
Netherlands	515	517	195	466
United States[2]	1,317	2,021	1,799	2,261
China	548	556	308	291
Germany	418	395	16	14
India	372	235	22	31
France	296	239	17	13
Saudi Arabia	144	140	164	137
Other countries	2,636	2,398	510	522
Total countries	**6,247**	**6,502**	**3,030**	**3,734**

1 Includes goodwill.
2 2020 includes Cooper Lighting.

Disaggregated revenue information

Total sales consist primarily of the sales of goods to customers (2020: 96%, 2019: 96%). Remaining sales include revenue from services, and sales- and usage-based royalties.
The amount of revenue recognized for the year ended December 31, 2020 from performance obligations satisfied (or partially satisfied) in previous periods amounts to EUR 55 million (2019: EUR 35 million).

Sales by market

	2019	2020
Europe	2,238	2,060
Americas	1,747	2,414
Rest of the world	1,855	1,500
Global businesses	406	528
Total	**6,247**	**6,502**

In 2020, Americas includes Cooper Lighting and Global businesses includes Klite.

4 Income from operations

	Note	2019	2020
Sales	3	6,247	6,502
Cost of materials used		(2,810)	(2,816)
Employee benefit expenses	5	(1,651)	(1,723)
Depreciation and amortization	6	(288)	(332)
Shipping and handling		(235)	(283)
Advertising and promotion		(133)	(135)
Lease related expenses		(24)	(29)
Other operational costs		(719)	(773)
Other business income, net	7	15	6
Income from operations		**401**	**416**

Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain, among others, expenses for outsourcing services, mainly in IT and HR, third-party workers, utilities and repair and maintenance for fixed assets.

5 Employee benefit expenses

Personnel expenses by nature as included in the Consolidated statement of income:

	Note	2019	2020
Salaries and wages		(995)	(1,080)
Social securities		(180)	(166)
Defined contribution plans		(71)	(73)
Cost of termination plans		(77)	(61)
Temporary personnel		(63)	(82)
Share-based compensation	27	(21)	(35)
Other		(243)	(225)
Total		**(1,651)**	**(1,723)**

Other personnel expenses mainly relate to travel expenses, incentives and other personnel related costs.

The average number of full-time equivalent (FTE) employees is summarized as follows:

	2019	2020
Employees	26,204	31,692
Third party workers	3,054	4,050
Total[1]	**29,258**	**35,743**

[1] 2,512 FTEs work in the Netherlands (2019: 2,641); the remaining FTEs work abroad

6 Depreciation, amortization and impairment

	Note	2019	2020
Property, plant and equipment	13	(167)	(191)
Internal-use software	15	(7)	(6)
Other intangible assets	15	(99)	(120)
Development costs	15	(16)	(14)
Total		**(288)**	**(332)**

7 Other business income and expenses

	2019	2020
Result on disposal of businesses:		
• Income	1	-
• Expense	-	(1)
Result on disposal of fixed assets:		
• Income	11	3
• Expense	-	(1)
Result on other remaining businesses:		
• Income	10	9
• Expense	(8)	(5)
Other business income and expenses	**15**	**6**
Total other business income	22	12
Total other business expense	(8)	(7)

The net result on other remaining businesses includes a EUR 3 million (2019: EUR 5 million) income from the movements in the indemnification positions with Koninklijke Philips N.V. originating from the separation.

In 2019, the result on disposal of fixed assets includes a EUR 7 million income from the sale of real estate in Digital Solutions, in China.

8 Financial income and expenses

	Note	2019	2020
Interest income		14	16
Change in fair value of financial assets at fair value through profit or loss	29	1	2
Other financial income		2	-
Financial income		**17**	**18**
Interest expense	23	(22)	(39)
Interest on the net defined-benefit obligation	25	(14)	(8)
Interest expense on lease liability	23	(7)	(7)
Change in fair value of financial assets at fair value through profit or loss	29	(1)	(3)
Net foreign exchange losses		(4)	1
Impairment loss of financial assets		-	-
Other financial expenses	23	(12)	(14)
Financial expenses		**(60)**	**(72)**
Financial income and expenses		**(43)**	**(54)**

9 Income taxes

The components of income tax expense were as follows:

	2019	2020
Current tax (expense)	(86)	(142)
Prior year benefit (expense)	1	3
Current tax expense	**(85)**	**(139)**

	2019	2020
Origination and reversal of temporary differences	(6)	121
Change in tax losses, tax credits and temporary differences recognized	(4)	(16)
Tax rate changes	3	11
Prior year benefit (expense)	-	(4)
Deferred income tax expense	**(8)**	**112**

Signify's operations are subject to income taxes in various jurisdictions. The statutory income tax rates vary from 9% to 35%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25% (2019: 25%). A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

	2019	%	2020	%
Income before taxes	**360**		**362**	
Weighted average statutory income tax rate	(79)	(22)%	(27)	(7)%
Non-deductible expenses	(16)	(4)%	(15)	(4)%
Tax incentives and exempt income	20	6%	136	38 %
Deferred tax expense related to de-recognition of deferred tax assets - net	(8)	(2)%	(16)	(4)%
Changes in the liability for uncertain tax positions	(6)	(2)%	(111)	(31)%
Prior year tax expense	-	- %	(1)	- %
Changes in tax rates	3	1%	11	3 %
Other	(7)	(2)%	(4)	(1)%
Income tax expense recognized in Consolidated statements of income	**(93)**	**(26)%**	**(27)**	**(8)%**

The weighted average statutory income tax rate decreased by 15% in 2020 compared to 2019, as a consequence of a significant change in the geographic mix of income before tax mainly due to one-off transactions in relation to the changes in the organizational structure.

The effective tax rate was 8% in 2020 (2019: 26%), which is lower than the statutory income tax rate of 25% in the Netherlands. The difference is primarily due to the one-time non-cash tax benefit from changes in the organizational structure as referred to in sub-section 4.5 and the impact of tax rate changes.

The impact of changes in the organizational structure is included in the “Tax incentives and exempt income" line offset by by "changes in the liability for uncertain tax positions" and "changes in tax rates". The increase of our liability for uncertain tax positions is mainly relating to transfer pricing uncertainties resulting from these changes in our organizational structure. The line item “Changes in tax rates” includes a non-cash tax benefit of EUR 32 million related to the revaluation of the deferred tax assets following the cancellation of the planned statutory tax rate decrease in the Netherlands. The effects of tax rate changes are included in the reported tax balances based on the information available per reporting date. In 2019, the changes in tax rates in the Netherlands and India resulted in a tax benefit of EUR 3 million.

Recognized deferred tax assets and liabilities

	Assets	Liabilities	Net
2020			
Intangible assets	296	(108)	188
Property, plant and equipment	21	(44)	(23)
Inventories	40	0	39
Other receivables and assets	38	(6)	32
Provisions for pensions and other post-retirement	66	–	66
Provisions for termination benefits	9	–	9
Other provisions	29	–	29
Other liabilities	85	(29)	56
Deferred tax assets on tax attributes [1]	55	–	55
Total allocations	**639**	**(187)**	**452**
Set-off of deferred tax	(166)	166	–
Net deferred tax assets	**473**	**(22)**	**452**

2019			
Intangible assets	134	(89)	44
Property, plant and equipment	25	(54)	(29)
Inventories	43	(1)	42
Other receivables and assets	52	(9)	43
Provisions for pensions and other post-retirement	72	1	73
Provisions for termination benefits	8	–	8
Other provisions	32	–	32
Other liabilities	86	(33)	53
Deferred tax assets on tax attributes [1]	90	–	90
Total allocations	**541**	**(185)**	**356**
Set-off of deferred tax	(157)	157	–
Net deferred tax assets	**384**	**(28)**	**356**

[1] Tax loss carryforwards (including tax credit carryforwards).

The net deferred tax assets of EUR 452 million (2019: EUR 356 million) consists of deferred tax assets of EUR 473 million (2019: EUR 384 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 22 million (2019: EUR 28 million) in countries with a net deferred tax liability position. An amount of EUR 132 million of deferred tax assets relates to several tax jurisdictions in which Signify has suffered a loss in the current or preceding period. Management's projections support the assumption that it is probable that the results of future operations will generate enough taxable income to utilize these deferred tax assets.

Movement in deferred tax balances during 2020 and 2019 were as follows:

	Balance as at January 1	Recog-nized in income statement	Other	Balance as at December 31
2020				
Intangible assets	44	144	1	188
Property, plant and equipment	(29)	6	–	(23)
Inventories	42	–	(3)	39
Other receivables and assets	43	(8)	(3)	32
Provisions:				
• pensions and other post-retirement benefits	73	(3)	(4)	66
• termination benefits	8	3	(1)	9
• other provisions	32	(1)	(2)	29
Other liabilities	53	4	(1)	56
Tax loss carryforwards (including tax credit carryforwards)	90	(32)	(3)	55
Net deferred tax assets	**356**	**112**	**(16)**	**452**

	Balance as at January 1	Recog-nized in income	Other	Balance as at December 31
2019				
Intangible assets	50	5	(10)	44
Property, plant and equipment	11	9	(49)	(29)
Inventories	42	1	–	42
Other receivables and assets	47	(4)	–	43
Provisions:				
• pensions and other post-retirement benefits	82	(8)	(1)	73
• termination benefits	15	(7)	–	8
• other provisions	35	(3)	–	32
Other liabilities	–	4	48	53
Tax loss carryforwards (including tax credit carryforwards)	98	(5)	(3)	90
Net deferred tax assets	**380**	**(8)**	**(16)**	**356**

For 2020, the column "recognized in income statement" in the table above includes the impact of changes in the organizational structure. The column “Other” includes foreign currency translation differences, acquisitions, the impact of the remeasurement of the deferred tax balances relating to Pensions and other post-retirement benefits and the impact of the adoption of IFRS 16 (2019).

At December 31, 2020, the temporary differences associated with investments, including potential income tax consequences on dividends for which no deferred tax liabilities are recognized, aggregate to EUR 271 million (2019: EUR 272 million).

At December 31, 2020, net operating loss carryforwards expire as follows:

Expiry year operating loss carryforwards

Total	2021	2022	2023	2024	2025	After 2025 but not unlimited	Unlimited
633	1	1	1	2	13	7	608

Unrecognized tax losses and tax credits

At December 31, 2020, the amount of operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet was EUR 541 million (2019: EUR 487 million).

Out of EUR 541 million, an amount of EUR 520 million should not be limited in time, EUR 1 million will expire by 2021, EUR 1 million will expire by 2022, EUR 1 million will expire by 2024, EUR 5 million will expire by 2025 and EUR 13 million expires after 2025, but carryforward is limited in time.

Unrecognized deductible temporary differences

At December 31, 2020, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 106 million (2019: EUR 60 million).

Classification of the income tax payable and receivable is as follows:

	2019	2020
Income tax receivable under other current assets	48	39
Income tax receivable under other non-current assets	8	8
Income tax payable under current liabilities	(22)	(20)
Income tax payable under non-current liabilities	(52)	(108)

Tax risks

Signify is exposed to tax uncertainties for which, if deemed probable, a liability is recognized in the income tax payable under non-current liabilities, and when tax uncertainties relate to deferred tax assets, these are offset against each other. These uncertainties include, among others, the following:

Transfer pricing uncertainties

Signify has issued transfer pricing directives, which are in accordance with international guidelines, such as those of the Organization of Economic Co-operation and Development (OECD). As transfer pricing has a cross-border effect, potential adjustments by local tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group Tax and Internal Audit to safeguard the correct implementation of the transfer pricing directives.

Tax uncertainties on general and specific service agreements and licensing agreements

Due to the centralization of certain activities in a limited number of countries (such as research and development, IT, group functions and head office), costs are also centralized. Consequently, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Signify entities. This could lead to discussions with local tax authorities if they do not accept these charges. For that purpose, service contracts such as intra-group service agreements and licensing agreements are signed with Signify group entities. Tax authorities review these intra-group service and licensing agreements and may reject the implemented intra-group charges.

Tax uncertainties due to permanent establishments

Signify may encounter tax uncertainties, due to permanent establishments in countries where new operations are started or business models are altered. This is because when operations in a country involve a foreign Signify organization, there is a risk that tax claims will arise in the former country as well as in the latter country.

When Signify has cross-border operations, there is a risk that tax claims will arise in all relevant countries.

With regard to these uncertainties, income tax payable is recognized when it is probable that additional taxes will be due. In addition, related to similar uncertainties, an indemnification liability to Koninklijke Philips N.V of EUR 51 million (2019: EUR 55 million) and an indemnification receivable of EUR 13 million (2019: EUR 18 million) is recorded. The total net liability increased in 2020 by EUR 1 million mainly due to settlements and expirations.

10 Earnings per share

	2019	2020
Net income attributable to shareholders of Signify N.V.	262	325
Weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	126,028,474	126,223,168
Plus incremental shares assumed from conversions of:		
• Performance shares	986,802	2,669,282
• Conditional shares	563,335	676,799
• Restricted shares	47,788	122,254
Diluted weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	127,626,399	129,691,502
Net income attributable to shareholders per ordinary share in EUR		
• Basic	2.08	2.58
• Diluted	2.06	2.51

11 Acquisitions and divestments

Signify completed two acquisitions in 2020 of which only Cooper Lighting was material.

Cooper Lighting Solutions

On March 2, 2020, Signify completed the acquisition of 100% interest in Cooper Lighting for a total consideration of EUR 1,280 million. The initial consideration was paid in cash.
The transaction price did not include any contingent and/or deferred considerations.
The cash position of Cooper Lighting 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 Halo, McGraw-Edison, Metalux and StreetWorks. 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 in 2019 and 2020 amounted to EUR 14 million, of which EUR 8 million relates to 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	515
Other Intangible assets	508
Property, plant and equipment	202
Trade and other receivables	214
Inventories	128
Other assets	28
Cash	2
Trade and other payables	(201)
Other liabilities assumed	(110)
Net deferred tax	(6)
Net assets acquired	**1,280**
Financed by loans	**(1,280)**

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	**508**

The fair value of assets and liabilities at acquisition date is provisional pending finalization procedures and is taking into account COVID-19 impact projections as per acquisition date. The acquisition accounting is expected to be finalized in the first two months of 2021. Receivables and other current assets are assumed to be valued against their fair value. Goodwill recognized for the amount of EUR 515 million is primarily related to the synergies expected to be achieved from integrating Cooper Lighting within Division Digital Solutions. The integration strengthens Signify's market position in North America, with increased innovation power, more competitive offerings, and improving the business mix with Professional revenues. 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 Signify was EUR 1,055 million and EUR 29 million accordingly. If the acquisition had taken place on January 1, 2020, sales and net income for Signify would have been EUR 6,732 million and EUR 353 million respectively for the year ended December 31, 2020.

There were no divestments, material for Signify, in 2020.

12 Interests in entities

Interests in subsidiaries

The Consolidated financial statements comprise the assets and liabilities of approximately 150 legal entities. Set out below is a list of material subsidiaries, in alphabetical order, representing more than 5% of either the consolidated company sales, income from operations or net income (before any intra-company eliminations). All the entities are 100% owned.

Legal entity name	Principal country of business
Cooper Lighting Netherlands B.V.	Netherlands
Cooper Lighting, LLC	United States of America
Signify (China) Investment Co., Ltd.	China
Signify Belgium N.V.	Belgium
Signify GmbH	Germany
Signify Holding B.V.	Netherlands
Signify Hong Kong Limited	Hong Kong
Signify Netherlands B.V.	Netherlands
Signify North America Corporation	United States of America
Signify Poland Sp. z.o.o.	Poland
Signify Singapore Pte Ltd.	Singapore

Signify does not have subsidiaries that have non-controlling interests that are material for its Consolidated financial statements.

Investments in associates

Signify has investments in several associates, none of them are regarded as individually material. In aggregate, the carrying amount, share of profit and other comprehensive income of the associates are shown in the Consolidated statement of financial position, Consolidated statement of income and Consolidated statement of comprehensive income.

13 Property, plant and equipment

	Land and buildings	Machinery and instal-lations	Other equipment	Prepay-ments and construc-tion in progress	Total
Balance as at January 1, 2019	**428**	**126**	**78**	**21**	**654**
Of which right-of-use assets	209	–	12	2	222
Change in book value:					
Capital expenditure	36	4	17	42	99
Assets available for use	8	21	13	(43)	–
Acquisitions	40	15	–	4	59
Additions	**83**	**41**	**30**	**4**	**158**
Of which right-of-use assets	39	–	9	–	48
Sales and disposals	(2)	–	(2)	–	(5)
Divestments and transfers to assets classified as held for sale	(4)	–	(1)	–	(6)
Of which right-of-use assets	(2)	–	–	–	(2)
Depreciation	(77)	(37)	(39)	–	(154)
Of which right-of-use assets	(52)	–	(10)	–	(62)
Impairment	(4)	(8)	(1)	–	(13)
Of which right-of-use assets	(1)	–	(1)	–	(2)
Translation differences and other movements	9	1	1	(1)	9
Of which right-of-use assets	6	–	–	–	6
Total changes	**4**	**(4)**	**(12)**	**2**	**(10)**
Balance as at December 31, 2019 [1]					
Cost	864	1,286	371	23	2,544
Accumulated depreciation / impairment	(432)	(1,163)	(305)	–	(1,900)
Book value	**432**	**123**	**66**	**23**	**644**
Of which right-of-use assets [1]	205	–	18	–	222

[1] The book values as at December 31, 2019 were adjusted to conform to the current year presentation.

	Land and buildings	Machinery and instal-lations	Other equipment	Prepay-ments and construc-tion in progress	Total
Book value as at January 1, 2020					
Change in book value:					
Capital expenditure	18	7	12	60	97
Of which right-of-use assets	17	–	8	–	25
Assets available for use	10	23	11	(44)	–
Acquisitions	107	53	17	25	202
Of which right-of-use assets	26				26
Additions	**135**	**83**	**41**	**41**	**299**
Sales and disposals	(5)	(1)	–	–	(6)
Divestments and transfers to assets classified as held for sale	(9)	0	–	–	(10)
Of which right-of-use assets	–	–	–	–	–
Depreciation	(88)	(43)	(45)	–	(176)
Of which right-of-use assets	(57)		(10)		(67)
Impairment	(6)	(6)	(1)	–	(14)
Of which right-of-use assets	(2)	–	–	–	(2)
Translation differences and other movements	(11)	(9)	4	(14)	(30)
Of which right-of-use assets	3	–	–	–	3
Total changes	**15**	**24**	**(2)**	**27**	**64**
Balance as at December 31, 2020					
Cost	941	1,284	437	51	2,713
Accumulated depreciation / impairment	(494)	(1,137)	(374)	–	(2,005)
Book value	**447**	**147**	**63**	**51**	**708**
Of which right-of-use assets	192	–	15	–	207

The impairment losses were mainly driven by manufacturing footprint rationalization.

Additions of right-of-use assets include remeasurement originating from lease renewals which were not considered probable per the commencement date.

14 Leases

The carrying amounts, depreciation and additions to right-of-use assets recognized are disclosed in note 13, Property, plant and equipment. The movements of the related Lease liability are disclosed in note 23, Debt.

The following are the amounts recognized in profit or loss and cash flow:

	Note	2019	2020
Interest expense on lease liability	8	(7)	(7)
Total cash outflow for leases	4, 8, 23	**(99)**	**(120)**

15 Intangible assets

	Goodwill	Customer relationships	Technology based	Brand names	Product development	Software	Other	Total
Balance as at January 1, 2019								
Cost	2,475	1,176	355	339	152	31	12	4,540
Accumulated amortization / impairment	(704)	(894)	(278)	(251)	(125)	(18)	(7)	(2,277)
Book value	**1,771**	**282**	**77**	**88**	**27**	**13**	**5**	**2,264**
Change in book value:								
Additions	-	-	9	-	16	4	-	29
Amortization	-	(66)	(19)	(13)	(13)	(6)	(1)	(118)
Acquisitions	142	20	15	1	-	-	-	178
Impairment	-	-	-	-	(3)	(1)	-	(3)
Translation differences and other movements	29	6	-	1	-	-	-	36
Total changes	**172**	**(40)**	**5**	**(11)**	**-**	**(2)**	**(1)**	**122**
Balance as at December 31, 2019								
Cost	2,651	1,212	375	343	163	36	11	4,791
Accumulated depreciation / impairment	(708)	(970)	(293)	(267)	(136)	(25)	(7)	(2,405)
Book value	**1,943**	**242**	**82**	**77**	**28**	**11**	**4**	**2,386**
Change in book value:								
Additions	-	-	-	-	13	18	-	32
Amortization	-	(77)	(26)	(17)	(13)	(6)	(1)	(139)
Acquisitions	515	335	70	103	-	1	-	1,024
Impairment	-	-	-	-	(1)	-	-	(1)
Translation differences and other movements	(206)	(48)	(3)	(17)	(1)	-	-	(275)
Total changes	**308**	**210**	**42**	**69**	**(2)**	**13**	**(1)**	**640**
Balance as at December 31, 2020								
Cost	2,921	1,419	388	410	145	58	8	5,350
Accumulated amortization / impairment	(670)	(967)	(264)	(264)	(119)	(35)	(5)	(2,324)
Book value	**2,251**	**452**	**124**	**146**	**26**	**23**	**3**	**3,026**

Goodwill

During the year ended December 31, 2020, a translation difference of EUR 206 million was mainly due to the change in the USD/EUR rate which impacted the goodwill denominated in USD. The goodwill related to Cooper Lighting acquisition of EUR 515 million is recognized in Division Digital Solutions.

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. The cash-generating units correspond to the operating segments. 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 note 1, Basis of preparation, for further details.

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 December 31, 2019 and December 31, 2020. The goodwill allocated to each of the cash-generating units as of December 31, 2019, and December 31, 2020, is presented below.

	2019	2020
Digital Solutions [1]	1,573	1,902
Digital Products	307	296
Conventional Products	62	53
Book value	**1,943**	**2,251**

[1] 2020 includes Cooper Lighting.

The basis of the recoverable amount used of the cash-generating units is the value in use. As mentioned in note 1, Basis of preparation, the impact of COVID-19 resulted in Signify performing a goodwill impairment test in the second quarter of the year but no impairment was identified as the estimated recoverable amount of the cash-generating units exceeded the carrying value. In the annual impairment test performed in the fourth quarter of 2020, the estimated recoverable amount of the cash-generating units tested exceeded the carrying value of the units. Therefore, no impairment loss was recognized.

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 period from 2021 to 2023 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, taking into account impact from the COVID-19 pandemic, and industry long-term growth averages.

For Digital Solutions, EBITA is expected to increase over the projection period as a result of volume growth, cost efficiencies, and recovery from the COVID-19 pandemic. Cash flow projections for 2020 and 2019 were based on the key assumptions included in the table below:

Key assumptions in %

	Compound sales growth rate [1]			
	Initial forecast period [2]	Extrapolation period	Used to calculate terminal value	Pre-tax discount rates
Digital Solutions 2020	9.7	3.6	0.3	11.2
Digital Solutions 2019	3.5	2.4	0.3	10.6

[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 Lighting would have been part of Signify in 2019 for comparability purposes.

The impairment test of Q4 2020 assumes a recovery of the global lighting market to 95% of its pre-COVID-19 projected level for 2025. In addition, Signify performed a sensitivity analysis and noted that even in the case of a recovery to 90% of its pre-COVID-19 projected level by 2025, no impairment is identified.

Other intangible assets

The additions for 2020 contain internally generated assets of EUR 13 million for product development and EUR 18 million for software. In 2020, acquired other intangible assets are Customer relationships of EUR 335 million, Technology based of EUR 69 million, Brand names of EUR 103 million, and Software EUR 1 million which all relate to Cooper Lighting.

The capitalized product development costs and software, for which amortization has not yet commenced, amounted to EUR 22 million as of December 31, 2020 (December 31, 2019: EUR 15 million).

As of December 31, 2020, the carrying amount of the customer relationships originating from the Genlyte acquisition in 2007 was EUR 66 million (USD 81 million) with a remaining amortization period of 2.1 years (2019: EUR 108 million, USD 121 million; 3.1 years). The carrying amount of the customer relationships originating from the Cooper Lighting acquisition in 2020 was EUR 286 million (USD 352 million) with a remaining amortization period of 19.8 years.

16 Objectives, policies and processes for managing capital

Despite COVID-19, Signify generated solid cash flows from operating activities in 2020. Signify remains focused on maintaining a robust capital structure and is committed to an investment grade rating. Signify prioritizes deleveraging with free cash flow expected to drive down Signify's net leverage ratio from around 1.7x at December 31, 2020 to below 1x net debt/ EBITDA by the end of 2022. Signify manages free cash flow performance by continuous structural working capital initiatives and gradual costs optimization, including post-merger integration costs related to acquisition of Cooper Lighting as described in note 11, Acquisitions and divestments.

Signify is subject to certain debt covenants, for details refer to note 23, Debt.

Free cash flows for the year ended December 31, 2020 and comparative information are presented below:

	2019	2020
Cash flows from operating activities	599	891
Cash flows from investing activities	(145)	(1,379)
Cash flows before financing activities	**454**	**(488)**
Cash flows from operating activities	599	891
Net capital expenditures:		
• Additions of intangible assets	(29)	(32)
• Capital expenditures on property, plant and equipment	(58)	(67)
• Proceeds from disposal of property, plant and equipment	16	25
Free cash flows	**529**	**817**

Working capital position as at December 31, 2020 and comparative information are presented below:

	2019	2020
Inventories	874	885
Trade and other receivables	1,223	1,140
Trade and other payables	(1,684)	(1,731)
Other working capital items	(25)	19
Working capital	**388**	**313**

17 Inventories

	2019	2020
Raw materials and components	299	314
Finished goods	575	571
Total	**874**	**885**

The write-down of inventories to net realizable value amounted to EUR 28 million for the year ended December 31, 2020 (2019: EUR 23 million).

18 Trade and other receivables

	2019	2020
Trade receivables	1,159	1,102
Other receivables	64	38
Total receivables, net of value allowance	**1,223**	**1,140**

The aging of Trade receivables, representing current and overdue, net of loss allowance, was as follows:

	2019	2020
Current	1,076	1,050
Overdue 1-30 days	25	21
Overdue 31-180 days	44	29
Overdue >180 days	14	2
Trade receivables, net	**1,159**	**1,102**

The changes in loss allowance for accounts receivable are as follows:

	2019	2020
Balance as at January 1	**(101)**	**(103)**
Additions charged to expense	(4)	(3)
Utilizations	7	6
Translation differences and other movements	(5)	5
Balance as at December 31	**(103)**	**(94)**

As per December 31, 2020, the loss allowance for accounts receivable included allowances for individually impaired receivables of EUR 83 million (2019: EUR 89 million).

19 Trade and other payables

	2019	2020
Payables to suppliers	1,047	1,089
Amounts payable to employees	184	226
Customer rebates	217	187
Marketing and sales related	60	64
Materials and fixed assets related	41	49
Other payables	134	115
Trade and other payables	**1,684**	**1,731**

Other payables in 2019 include deferred considerations for acquisitions of business (EUR 38 million). Other payables include multiple individually insignificant items, among others communication and IT-related accruals, consultancy costs payable and other payables.

20 Other assets

	2019	2020
Prepayments	38	47
Contract assets	48	39
Other assets	140	146
Total	**225**	**231**
From which current	161	171
From which non-current	64	60

Other assets mainly include indirect taxes receivable or recoverable and indemnification balances resulting from the separation from Koninklijke Philips N.V and past business combination transactions.

Indemnification receivable of EUR 13 million (2019: EUR 18 million) included in Other assets mainly relates to the indemnification for tax liabilities arising from the separation from Koninklijke Philips N.V.

21 Other liabilities

	2019	2020
Contract liability	137	162
Other tax liabilities	60	79
Other liabilities	120	131
Total	**317**	**372**
From which current	183	213
From which non-current	135	159

Out of the total amount of EUR 137 million recognized in contract liabilities at the end of 2019 (beginning of 2019: EUR 119 million), EUR 40 million has been recognized as revenue for the year ended December 31, 2020 (2019: EUR 48 million). The non-current portion of contract liabilities is recognized over time over the duration of the contract, generally beyond 1 and up to 15 years.

Other liabilities mainly relate to separation from Koninklijke Philips N.V. In 2016, as part of the agreement in relation to the separation from Koninklijke Philips N.V., indemnities and guarantees were provided by major subsidiaries of Signify to Koninklijke Philips N.V. Conversely, certain major subsidiaries of Koninklijke Philips N.V. have provided guarantees to Signify. Indemnification payable of EUR 51 million (2019: 55 million) mainly relates to uncertain tax positions indemnified in the separation from Koninklijke Philips N.V.

22 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.

On December 31, 2020, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2019: 128,344,238).

As a defense measure, Stichting Continuïteit Signify, a foundation organized under the laws of the Netherlands, has been granted the right to acquire preference shares in the Company. As of December 31, 2020, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

As a precautionary measure in March 2020, Signify decided to withdraw its proposal to pay a dividend of EUR 1.35 per share to ensure resilience during market uncertainty related to the COVID-19 pandemic and to further strengthen Signify's financial position. As announced on January 13, 2021, a proposal will be submitted to the 2021 Annual General meeting of Shareholders to pay an extraordinary dividend of EUR 1.35 per ordinary share, in cash, from freely distributable reserves.

A further proposal will be submitted to the 2021 Annual General meeting of Shareholders to pay a dividend of EUR 1.40 per ordinary share, in cash, from the 2020 net income.

Treasury shares

The following table shows the movements in the outstanding number of shares over the last two years:

	2019	2020
Balance as at January 1	**126,095,073**	**125,938,631**
Purchase of treasury shares	(240,000)	(1,333,418)
Delivery of treasury shares	83,558	976,158
Balance as at December 31	**125,938,631**	**125,581,371**

The following table shows the share transactions to cover obligations arising from share-based compensation plans (for further details refer to note 27, Share-based compensation):

	2019	2020
Shares acquired	240,000	1,333,418
Average market price	EUR 25.64	EUR 28.21
Amount paid	EUR 6 million	EUR 38 million
Shares delivered	83,558	976,158
Average price (FIFO)	EUR 32.84	EUR 32.66
Cost of delivered shares	EUR 3 million	EUR 32 million
Total shares in treasury at year-end	**2,405,607**	**2,762,867**
Total cost	**EUR 68 million**	**EUR 74 million**

Limitations in the distribution of shareholders' equity

As at December 31, 2020, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 176 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 154 million, other reserves of EUR 3 million and unrealized gains related to cash flow hedges of EUR 17 million. The unrealized losses related to currency translation differences of EUR 337 million, which although qualifying as a legal reserve, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2020, amounted to EUR 2,021 million (2019: EUR 1,993 million).

The legal reserve required by Dutch law of EUR 154 million relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2019, the limitations in distributable reserves were EUR 189 million related to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 178 million, other reserves of EUR 3 million and unrealized gains related to currency translation differences of EUR 7 million. The unrealized losses related to cash flow hedges of EUR 7 million, which although qualifying as a legal reserve, reduce the distributable amount by their nature.

23 Debt

	2019	2020
Facility (EUR)	740	389
Facility (USD)	446	406
Eurobonds	–	1,262
Lease liabilities	252	233
Other debt	20	15
Subtotal	**1,458**	**2,305**
Bank overdrafts	7	3
Gross debt	**1,465**	**2,307**
Cash and cash equivalents	(847)	(1,033)
Net debt (cash)	**618**	**1,275**
Total equity	**2,324**	**2,321**
Net debt and total equity	2,942	3,595
Net debt divided by net debt and total equity (in %)	21 %	35%
Total equity divided by net debt and total equity (in %)	79 %	65%

Movements of debt were as follows:

	Facility (EUR)	Facility (USD)	Eurobonds	Bridge loan	Lease liabilities	Other debt	Bank overdrafts	Total
Balance as at January 1, 2019	**737**	**437**	**-**	**-**	**277**	**62**	**12**	**1,524**
Financing cash flows:								
• New borrowings	-	-	-	-	-	12	-	12
• Repayment	-	-	-	-	(73)	(54)	-	(127)
Translation difference	-	9	-	-	2	1	-	11
Other movements [1]	3	1	-	-	46	-	(4)	45
Balance as at December 31, 2019	**740**	**446**	**-**	**-**	**252**	**20**	**7**	**1,465**
Balance as at January 1, 2020	**740**	**446**	**-**	**-**	**252**	**20**	**7**	**1,465**
Acquisitions	-	-	-	-	26	-	-	26
Financing cash flows:								
• New borrowings	740	454	1,270	1,261	-	19	-	3,744
• Repayment	(1,090)	(454)	-	(1,291)	(80)	(17)	-	(2,932)
Translation difference	-	(39)	-	30	(9)	-	-	(18)
Other movements [1]	(1)	(1)	(8)	-	44	(7)	(4)	22
Balance as at December 31, 2020	**389**	**406**	**1,262**	**-**	**233**	**15**	**3**	**2,307**

[1] Other movements include additions of leases which are non-cash transactions.

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 Signify has two investment grade ratings.

The new term loan structure bears interest at a variable rate based on the relevant applicable EURIBOR and USD LIBOR respectively with zero floor plus a margin. As of December 31, 2020, the margin was 0.65% for the term loans maturing in January 2023 and 0.75% for the term loans maturing in January 2025, and is subject to change depending on the public credit rating of Signify assigned by rating agencies.

As of September 2020, following the repayment of EUR 350 million of debt, the committed term loan structure consists of EUR 50 million and USD 275 million maturing in January 2023 and EUR 340 million and USD 225 million maturing in January 2025.

Eurobonds issuance

In May 2020, Signify 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.

24 Provisions

	Restructuring-related provisions	Environmental Provisions	Product warranty	Other provisions	Total
Balance as at January 1, 2019	**99**	**115**	**42**	**140**	**396**
Additions	82	6	44	34	166
Utilizations	(97)	(15)	(45)	(32)	(188)
Reclassifications	2	0	-	0	1
Releases	(9)	(2)	-	(8)	(19)
Changes in discount rate	-	3	-	1	4
Accretion	-	1	-	1	2
Translation differences and other movements	-	1	-	1	2
Balance as at December 31, 2019	**78**	**110**	**41**	**136**	**365**
Short-term	61	21	25	41	149
Long-term	17	89	16	94	216
Balance as at January 1, 2020	**78**	**110**	**41**	**136**	**365**
Acquisitions	0	5	34	20	58
Additions	72	8	62	40	182
Utilizations	(52)	(10)	(61)	(42)	(165)
Releases	(13)	(1)	-	(14)	(28)
Changes in discount rate	-	0	-	2	2
Accretion	-	1	-	1	1
Translation differences and other movements	(1)	(3)	(6)	(10)	(21)
Balance as at December 31, 2020	**84**	**109**	**70**	**133**	**396**
Short-term	68	28	37	39	172
Long-term	16	81	33	94	224

Restructuring

The provision for restructuring relates primarily to restructuring programs in Division Conventional Products, mainly in Belgium and the Netherlands. Signify expects the provision will be utilized mainly within next year.

Environmental provision

Signify is exposed to environment risks, mainly because it has been in the business of manufacturing products for more than a century. During that period, Signify has opened, discontinued and acquired many manufacturing plants and sites. Some of these plants and sites have been used for industrial purposes for decades and as such, there is a latent risk that these premises may have environmental conditions that require corrective actions as a result of such use. The environmental provisions include accrued costs recorded with respect to environmental remediation in various countries. Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities as well as changes in judgments and discount rates. The environmental provision is expected to be utilized mainly within the next five years.

Product warranty

Manufacturing of Signify's products involves complex processes and defects might occur. In addition, it is possible that some of Signify's products may not perform as expected (for example, in terms of estimated life span and projected energy savings). These defects or shortfalls may cause Signify to incur significant warranty, support and replacement costs. The provision for product warranty reflects the estimated costs of replacement and free-of-charge services that will be incurred by Signify with respect to products sold. Signify expects the provision will be mainly utilized within the next two years.

Other

Signify and certain of its group companies are involved in legal proceedings relating to such matters as product liability and claims for property damage and personal injury, alleged to have been caused by failure or malfunction of its products as well as commercial transactions, and intellectual property infringements (among others). The outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty. Signify makes provisions if payments with respect to such matters are probable and the amount can be estimated reliably. Furthermore, other provisions mainly comprise of provisions for self-insurance, decommissioning and provision for employee jubilee funds. Other provisions are expected to be utilized mainly within the next five years.

25 Post-employment benefits

Post-employment benefits covered in this note relate to defined-benefit pension and other post-retirement benefit plans, including defined-benefit retiree medical plans. The benefits provided by these plans are based on employees' years of service and compensation levels. Employee post-employment defined-benefit plans have been established in several countries in accordance with the legal requirements, customs and local practice.

Net defined-benefit liabilities per country

			2019			2020
	Obligation	Plan assets	Net Liability	Obligation	Plan assets	Net Liability
Germany	236	(15)	221	227	(15)	212
Unites States	625	(505)	120	579	(485)	94
Other countries	166	(70)	96	153	(69)	84
Total countries	**1,027**	**(590)**	**437**	**959**	**(569)**	**390**

United States

The defined-benefit Hourly & Salaried Pension Plan in the US covers certain hourly workers and salaried workers hired before January 1, 2005. The plan is closed for new entrants and since 2016 no further benefit accruals are taking place. Employees only accrue benefits in a defined-contribution plan. Signify pays the administration cost and contributions to cover the funding deficit of the Hourly & Salaried Pension Plan. The plan assets are governed by an Investment Committee. Signify also has an unfunded pension plan in place for higher salaried employees and a post-retirement welfare plan.

Signify reviewed the funding level of the Hourly & Salaried Pension Plan and decided that it would not make a contribution in 2020. Signify expects in 2021 cash outflows in relation to the defined-benefit plans of EUR 7 million.

For the funding of the deficit of the US Hourly & Salaried Pension Plan, Signify adheres to the minimum funding requirements of the US Pension Protection Act.

Germany

For employees with a salary above a certain salary threshold, there is a funded defined-benefit pension plan which has a deficit of EUR 9 million. This plan has been closed for new entrants since January 1, 2018. Since 2016, Signify no longer makes any contributions to this plan but funds the liabilities when these are paid out to retirees. New employees accrue pension benefits through a defined-contribution plan. For other closed defined-benefit plans, Signify has an unfunded liability of EUR 203 million as at December 31, 2020. Signify expects cash outflows of EUR 18 million in 2021 for the pension plans.

Cash outflows for the defined-benefit plans in countries other than the USA and Germany are expected to total EUR 12 million in 2021.

Risks related to defined-benefit plans

The defined-benefit plans expose Signify to various demographic and economic risks, such as longevity, investment, currency and interest rate risks and, in some cases, inflation risk. The latter plays a role in the assumed wage increase and in some smaller plans where indexation is mandatory.

The larger plans are governed by either independent boards, committees or trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory frameworks. These boards and trustees are responsible for and have full discretion over the investment strategy of the plan assets, in general they manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

Signify has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined-benefit plans.

Movements of net defined-benefit liability

	2019			2020		
	Obligation	Plan assets	Net Liability	Obligation	Plan assets	Net Liability
Balance as at January 1	**965**	**(491)**	**474**	**1,027**	**(590)**	**437**
Service cost	9	–	9	11	–	11
Admin expenses paid	–	1	1	–	1	1
Settlements	–	–	–	–	–	–
Recognized in employee benefit expenses	9	1	10	11	1	12
Interest (cost) / income	34	(20)	14	24	(16)	8
Included in Statements of Income	**43**	**(19)**	**24**	**35**	**(15)**	**20**
Actuarial gains / (losses)						
• Demographic assumptions	(23)	–	(23)	(6)	–	(6)
• Financial assumptions	118	(105)	13	54	(59)	(5)
• Experience adjustment	4	–	4	(1)	–	(1)
Exchange rate differences	14	(9)	5	(76)	51	(25)
Included in Statements of comprehensive income	**113**	**(114)**	**(1)**	**(29)**	**(8)**	**(37)**
Employee contributions	2	(2)	–	2	(2)	–
Employer contributions	–	(26)	(26)	–	(4)	(4)
Benefits paid						
• Benefits paid directly by employer	(32)	–	(32)	(31)	–	(31)
• Benefits paid from plan assets	(61)	61	0	(50)	50	–
Reclassifications	(3)	1	(2)	–	–	–
New consolidations	–	–	–	5	–	5
Other	**(94)**	**34**	**(60)**	**(74)**	**44**	**(30)**
Balance as at December 31	**1,027**	**(590)**	**437**	**959**	**(569)**	**390**

Plan assets allocation

The asset allocation in Signify's pension plans at December 31 was as follows:

In millions of EUR	2019	2020
Debt securities	401	408
Equity securities	97	68
Other	92	93
Total assets	**590**	**569**

The assets in 2020 contained 15% unquoted assets. Plan assets in 2020 do not include property occupied by or financial instruments issued by Signify.

Some 85% of the total plan assets of the Signify pension plan are in the US and are invested in a well-diversified portfolio. The interest rate sensitivity of the fixed income portfolio of the US qualified pension plan is closely aligned to that of the plan's pension liabilities. The remaining 15% of the total plan assets is mainly the market value of insured pension benefits.

Assumptions

The mortality tables used for Signify's major schemes are:

- US: Base table PRI-2012 White Collar mortality table, projected forward with future mortality improvements according to Scale MP-2020.
- Germany: Richttafeln 2018 G K. Heubeck.

The weighted averages of the assumptions used to calculate the defined-benefit obligation as of December 31, 2020 were as follows:

In %	2019	2020
Discount rate	2.6	1.9
Pension cost increases	0.4	0.4
Healthcare cost increases	0.5	0.4
Wage increases	0.5	0.4

The average duration of the defined-benefit obligation of the defined-benefit plans is 10.1 years. For the defined-benefit plans in the US and Germany, the average duration is respectively 10.2 years and 9.2 years. The average discount rates for the plans in these countries are respectively 2.2% and 0.4%. The pension cost increase rate assumption for the German defined-benefit plans is 1.6%.

Sensitivity analysis

The table below illustrates the approximate impact on the defined-benefit obligation if Signify were to change key assumptions. The defined-benefit obligation was recalculated using a change of 1% in the respective assumptions which overall is considered a reasonably possible change. The impact on the defined-benefit obligation of changes in discount rate is for funded plans normally accompanied by offsetting movements in plan assets, especially when using matching strategies.

	2019	2020
Increase		
Discount rate (1% movement)	(95)	(88)
Wage change (1% movement)	7	7
Pension indexation change (1% movement)	24	22
Longevity (see explanation)	36	32
Healthcare cost change (1% movement)	9	6
Decrease		
Discount rate (1% movement)	110	102
Wage change (1% movement)	(7)	(6)
Pension indexation change (1% movement)	(22)	(20)

Longevity also impacts the post-employment defined-benefit obligation. In the above sensitivity table, the impact on the defined-benefit obligation of a further 10% decrease in the assumed rates of mortality for Signify's major schemes is illustrated. A 10% decrease in assumed mortality rates equals improvement of life expectancy by six months to a year.

26 Related party transactions

Signify considers the Board of Management and the Supervisory Board to be key management personnel as defined in IAS 24 'Related parties'. For remuneration details of Key Management, see note 28, Information on remuneration.

27 Share-based compensation

Signify Long-term Incentive Plan

Under the Signify Long-term Incentive Plan (LTI Plan), which is equity settled, eligible employees are granted both conditional shares and performance shares. Conditional shares have a three-year cliff vesting period and will vest if a grantee is still employed with Signify at the vesting date.

Vesting of performance shares is conditional on the achievement of performance conditions measured over a period of three years. The performance condition measurement is based on three measures for the 2018 and 2019 LTI Plans and four measures for the 2020 LTI Plan, For details refer to the following table:

Relative share of performance shares per LTI plan in %

Types of performance shares	LTI 2018	LTI 2019	LTI 2020
Total shareholder return	40	40	25
Free cash flow	40	40	25
Sustainability	20	20	25
Return on Capital Employed			25
Total	**100**	**100**	**100**

For the Board of Management and certain members of senior management, the LTI Plan consists of performance shares only. Shares are conditionally granted annually.

In addition to shares awarded under the Signify LTI Plan, Signify may in individual cases, such as in the hiring process of members of (senior-) management, also grant restricted shares. Restricted shares have either three-year cliff vesting period or vest gradually over the vesting period of one, two or three years.

Under the terms of the employee stock purchase plan (ESPP), employees are eligible to purchase a limited number of Signify shares at discounted prices through payroll withholdings.

Signify performance shares

The fair value of shares granted with the market performance condition of relative TSR is measured based on Monte Carlo simulation. The closing share price at grant date is adjusted for the present value of expected dividends during the vesting period, as participants are not compensated for Signify dividend payouts. Monte Carlo simulation takes into account market conditions expected to impact relative Total Shareholders' Return performance in relation to selected peers and the following weighted-average assumptions:

Assumptions used in Monte-Carlo simulation for valuation in %

	2020
Risk-free interest rate	(0.7)%
Expected share price volatility	38 %

The assumptions were used for these calculations only and do not necessarily represent an indication of Signify management's expectation of future developments for other purposes. Historic volatility was measured over the same timeframe as the simulation period (weighted average 2.6 years).

The amount calculated as an expense for TSR shares is not adjusted for actual performance.

FCF, Sustainability, and ROCE related measurements are non-market performance conditions. Fair value of shares granted under FCF, Sustainability, and ROCE objective conditions equals the closing share price on the grant date, adjusted for the present value of expected dividends during the vesting period.

The amount calculated as an expense for shares granted with a non-market performance condition is adjusted for actual performance.

A summary of Signify performance shares movements and outstanding balance as of December 31, 2020 and 2019, is presented below.

Signify performance shares

	2019		2020	
	Shares	Weighted average grant-date fair value	Shares	Weighted average grant-date fair value
EUR-denominated				
Balance as at January 1	**1,778,120**	**26.73**	**1,899,991**	**27.12**
Granted	846,821	24.70	1,110,226	15.96
Vested	(18,819)	34.17	(672,036)	34.96
Forfeited	(221,069)	25.04	(162,444)	30.34
Performance adjustment	(485,062)	22.16	1,204,381	22.62
Balance as at December 31	**1,899,991**	**27.12**	**3,380,119**	**20.14**

The performance adjustment originates from updates in the number of shares which are expected to vest in relation to the mentioned non-market performance conditions.

On December 31, 2020, estimated unrecognized costs related to non-vested performance shares amounted to EUR 23 million. These costs are expected to be recognized over a weighted-average period of 1.9 years.

Signify conditional shares

Fair value of conditional shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

A summary of Signify conditional shares movements and outstanding balance as of December 31, 2020 and 2019, is presented below.

Signify conditional shares

	2019		2020	
	Shares	Weighted average grant-date fair value	Shares	Weighted average grant-date fair value
EUR-denominated				
Balance as at January 1	**536,785**	**25.46**	**800,643**	**24.05**
Granted	328,940	21.85	416,350	15.99
Vested	(12,011)	27.24	(253,290)	28.87
Forfeited	(53,071)	23.95	(62,872)	20.29
Performance adjustment	-	-	-	-
Balance as at December 31	**800,643**	**24.05**	**900,831**	**19.21**

On December 31, 2020, estimated unrecognized costs related to non-vested conditional shares amounted to EUR 6 million. These costs are expected to be recognized over a weighted-average period of 1.8 years.

Signify restricted shares

Fair value of restricted shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

In 2020, Signify granted 193,602 restricted shares with weighted average grant date fair value of EUR 16.95.

On December 31, 2020, estimated unrecognized costs related to non-vested restricted shares amounted to EUR 2 million. These costs are expected to be recognized over a weighted-average period of 2.0 years.

28 Information on remuneration

In 2020, the total remuneration costs relating to the members of Key Management amounted to EUR 8,065,789 (2019: EUR 6,589,964).

Remuneration of the Board of Management

In 2020, the total remuneration costs relating to the members of the Board of Management amounted to EUR 7,434,671 (2019: EUR 6,007,275).

Remuneration costs of Key Management – the Board of Management in EUR

	2019	2020
Salary/Base compensation [1]	2,010,000	2,160,184
Annual Incentive [2]	1,035,150	1,270,949
Long Term Equity-based Incentive [3]	2,074,252	2,586,826
Pension allowances	639,546	633,490
Pension scheme costs	79,140	79,157
Other compensation [4]	169,187	115,008
Termination benefits [5]	-	589,057
Total costs	**6,007,275**	**7,434,671**

1 Base compensation/salary includes 20% COVID-19 reduction in Q2 2020.
2 The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.
3 Costs of performance shares (2020: Signify and 2019: Signify and Koninklijke Philips N.V.) and restricted shares (Signify sign-on of EUR 300,000 F.J. van Engelen Sousa) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.
4 The stated amounts mainly concern (part of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a part of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then such part is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. Net allowances are not included.
5 As the company elected not to renew the services contract for C.L. van Schooten after the end of term in May 2021, as per his services contract (which is published on the company's website), he will receive a lump sum payment of one time the annual base compensation/salary (gross amount of EUR 589,057), which is payable in June 2021. An additional tax levy, pursuant to Article 32bb of the Dutch wage tax act, will be payable by the company over the total remuneration of C.L. van Schooten, including this lump sum payment, in the year of his termination (estimated at EUR 543,883).

For further information on remuneration costs, see chapter 9, Remuneration report, of this Annual Report.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 631,118 (2019: EUR 582,689).

Remuneration of Key Management – the Supervisory Board in EUR (excluding VAT)

	2019	2020 [1]
Membership	420,000	504,000
Committees	113,500	114,618
Other compensation [2]	49,189	12,500
Total costs	**582,689**	**631,118**

1 The amounts mentioned in this table include 20% COVID-19 reduction in Q2 2020.
2 The amounts mentioned under other compensation relate to the fee for (inter-)continental travel.

29 Financial risk management

Signify is exposed to several types of financial risks, as they arise in the normal course of business: interest rate risk, credit risk, liquidity risk, commodity price risk, currency and country risk. This note comprises the disclosures on Signify's financial risk management objectives, policies and procedures to monitor and manage these risks.

The summary of all financial assets and liabilities, including their classification and measurement and fair value hierarchy is presented below:

	Carried at	Gross amount recognized 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 [1]
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	10
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 December 31, 2020						
Non-current financial assets [1]	amortised cost	34	–	34		34
Unquoted equity shares	fair value (FVOCI)	3	–	3	3	3
Trade and other receivables [1]	amortised cost	1,140	–	1,140		1,140
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	122	(41)	81	2	122
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	–	–	–	3	9
Cash and cash equivalents		1,033	–	1,033		1,033
Debt (Eurobonds)	amortised cost	(1,262)	–	(1,262)	1	(1,378)
Debt (excluding Eurobonds) [1]	amortised cost	(1,046)	–	(1,046)	2	(1,046)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(45)	41	(4)	2	(45)
Trade and other payables [1]	amortised cost	(1,727)	–	(1,727)		(1,727)
Contingent considerations	fair value (FVTPL)	(4)	–	(4)	3	(4)

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.

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.

The following hierarchy is applied to classify the financial assets and liabilities:

Level 1

Instruments included in Level 1 are comprised primarily of listed Eurobonds classified as financial liabilities at amortized cost. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in Level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. Please refer to note 2, Significant accounting policies, for further details.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

Interest rate risk

Interest rate risk is the risk of the fair value or future cash flows of a financial instrument fluctuating because of changes in the market interest rates. Financial instruments included in the debt position create an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results.

Signify monitors interest rate coverage, short-term and long-term interest rate developments and has the flexibility to opt for different short-term interest periods for the variable debt instruments at roll-over dates and/or could enter into derivative financial instruments to fix interest rates for a certain period of time. As of December 31, 2020, Signify had a ratio of fixed-rate debt to total outstanding debt of approximately 65% (2019: 17%).

A sensitivity analysis conducted in January 2021 shows that if interest rates were to increase instantaneously by 1% from their level of December 31, 2020, with all other variables held constant, the annualized net interest expense would decrease by EUR 3 million. This impact was based on the outstanding net floating debt position as of December 31, 2020.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Details on the COVID-19 impact are disclosed in note 1, Basis of preparation.

Liquidity risk for Signify is monitored through the Treasury Risk Committee which tracks the development of the actual cash flow position and uses input from a number of sources in order to forecast the overall liquidity position.

The table below analyzes Signify's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. Interest on Long-term debt is based on floating rate adjustments according to market expectations.

		Payments due by period		
	Total	Less than 1 year	Between 1 and 5 years	Over 5 years
Debt, including bank overdrafts	2,075	19	1,460	596
Interest on debt	162	34	108	20
Trade and other payables	1,731	1,731		
Lease liability	233	69	132	32
Derivative liabilities	45	44	1	
Off-balance sheet commitments	159	31	125	3
Purchase obligations	93	35	58	
Contractual cash obligations	**4,498**	**1,963**	**1,884**	**651**
Revolving credit facility (RCF)	500			

Signify invests surplus cash primarily in money market deposits with investment graded financial institutions, and with maturities up to three months, to ensure sufficient liquidity is available to meet liabilities when due.

Signify has various sources to mitigate liquidity risk. Signify pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs. The table below shows details of cash and cash equivalents and bank overdrafts as of the reporting date:

	2019	2020
Cash at banks and in hand	423	315
Short-term deposits	394	700
Other cash equivalents	30	17
Cash and cash equivalents	**847**	**1,033**
Bank overdrafts	(7)	(3)
Cash and cash equivalents and bank overdrafts	**840**	**1,030**

Signify has a EUR 500 million revolving credit facility that can be used for general purposes. As of December 31, 2020, Signify did not have any amounts drawn under either facility.

Currency risk

Currency risk is the risk that reported financial performance, or the fair value or future cash flows of a financial instrument, will fluctuate because of changes in foreign exchange rates. Signify operates in many countries and currencies and therefore currency fluctuations may inevitably impact its financial results. Signify is exposed to currency risk in the following areas:

- Transaction exposures related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions.
- Financing exposure arising from foreign currency intercompany and external debt and deposits.
- Translation exposure of net income in foreign entities.
- Translation exposure of foreign currency denominated equity invested in consolidated companies.
- Translation exposure to equity interests in non-functional-currency investments in associates and financial assets at fair value.

It is Signify's policy to reduce the volatility caused by foreign currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign currency sales and purchases. In general, net anticipated exposures are hedged during a period of 15 months in layers of 20% up to a hedge ratio of 80%, using derivatives.

Signify's policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Signify from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

The following table outlines the estimated nominal value in millions of EUR for transaction exposure and related hedges for Signify's most significant currency exposures:

	Receivables / Sales		Payables / Purchases	
	Exposure	Hedges	Exposure	Hedges
Balance as at December 31				
Exposure currency				
CNY	80	(65)	(1,185)	678
USD	1,001	(606)	(186)	154
GBP	124	(68)	(13)	9
EUR [1]	121	(121)	(14)	14
CAD	97	(57)	–	–
SEK	79	(40)	(1)	–
CHF	61	(34)	(3)	3
AUD	58	(32)	–	–
NOK	45	(21)	(1)	1
SGD	43	(22)	(4)	3
NZD	42	(23)	(10)	6
RON	28	(14)	–	–
CZK	22	(11)	–	–
PLN	48	(48)	(32)	32
Others	16	(16)	(21)	21
Total 2020	**1,866**	**(1,177)**	**(1,471)**	**920**
Total 2019	**986**	**(685)**	**(1,901)**	**1,258**

[1] EUR exposures in non EUR donominated functional currencies.

As of December 31, 2020, a gain of EUR 22 million was deferred in equity as a result of these hedges (2019: loss of EUR 8 million). The result deferred in equity will be released to earnings mostly during 2021 at the time when the related hedged transaction affects the Consolidated statement of income. During 2020, EUR nil million (2019: EUR nil million) was recorded within cost of goods sold in the Consolidated statement of income as a result of ineffectiveness on certain anticipated cash flow hedges.

The total net fair value of hedges related to transaction exposure as of December 31, 2020 was an unrealized asset of EUR 23 million (2019: liability EUR 5 million). An instantaneous 10% increase in the value of the euro against all currencies, with all other variables held constant, would lead to an increase of EUR 2 million in the value of the derivatives. This increase includes a loss of EUR 12 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of EUR 14 million would be recognized in equity to the extent that the cash flow hedges were effective.

Foreign exchange exposure also arises from intercompany loans and deposits. Where Signify enters into such arrangements the financing is generally provided in the functional currency of the subsidiary. The currency of Signify's external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits or synthetically by using foreign exchange derivatives. In certain cases, where Signify subsidiaries may also have external foreign currency debt or liquid assets, these exposures are also hedged using foreign exchange derivatives. The fair value of these hedges as of December 31, 2020 was an unrealized asset of EUR 2 million (2019: asset of EUR 1 million). An instantaneous 10% increase in the value of euro against all currencies, with all other variables held constant, would lead to a decrease of EUR 46 million in the value of the derivatives.

In 2020, Signify started to hedge part of its investment in one of its foreign subsidiaries which includes Cooper Lighting by entering into foreign currency forward contracts of nominal amount of USD 503 million. This hedge mitigates foreign currency translation risk arising from the net assets of the subsidiary. This hedge was fully effective, as such there was no ineffectiveness recognized in profit and loss in 2020. As at 31 December 2020 the market value of these forward contracts was an asset of EUR 52 million. A 10% increase in the value of the EUR against USD would lead to an increase of EUR 37 million in the fair value of derivatives that end up in the Currency translation differences within Equity.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Signify is a purchaser of certain base metals, precious metals and energy. Signify could hedge certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. As of December 31, 2020, Signify had EUR nil million of commodity derivatives recognized in the Statement of financial position (2019: EUR 2 million).

Change of the commodity price for 10% will lead to the commodity derivatives value change of EUR 5 million (2019: EUR 5 million).

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Signify trade and other receivables and contract assets. To have better insights into the credit exposures, Signify performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap, including reducing payment terms, cash on delivery, prepayments and pledges on assets.

Signify invests available cash and cash equivalents and enters into financial derivative instruments with various financial institutions and is exposed to credit risk with these counterparties. Signify does not enter into any financial derivative instruments to protect against default by financial institutions.

Where possible, Signify requires all financial institutions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a solid credit rating from generally accepted rating agencies. Signify also regularly monitors the development of the credit risk of its financial counterparties.

Signify minimizes this risk by limiting the deposits made with any single bank and by making deposits, the majority of which is with banks that have strong credit ratings.

Maximum credit risk exposure for Signify equals carrying amounts of all financial assets recognized in the Statement of financial position plus off-balance sheet guarantees provided.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable.

As of December 31, 2020, Signify had country risk exposure of EUR 2.4 billion in the United States, EUR 1.2 billion in the Netherlands and EUR 562 million in Belgium. Countries where the risk exceeds EUR 200 million but was less than EUR 500 million are China including Hong Kong (EUR 483 million), Poland (EUR 444 million), and Saudi Arabia (EUR 201 million). Countries where the risk exceeded EUR 50 million but was less than EUR 200 million are Mexico, Spain, Canada, Singapore, France, India and Australia. The degree of risk of a country is taken into account when new investments are considered. Signify does not, however, use financial derivative instruments to hedge country risk, except for the net investment hedge as described above.

30 Events after the balance sheet date

In January 2021, Signify extended the maturity of the committed EUR 500 million multi-currency revolving credit facility (RCF) for one year (till January 2026). Originally, the facility had a maturity of five years (January 2025) with the option to extend it twice by one year at the end of the first and second anniversary. The other conditions of the term and revolving credit facility remained unchanged.

In January 2021, Signify communicated a further plan that aims to enhance its competitiveness by optimizing the cost base, making the central organization leaner and improving the performance culture. These changes are enabled by a revised organizational structure and will lead to a reduction of approximately 600 positions globally (representing 2% of total Signify workforce), of which approximately 250 positions will be in the Netherlands (representing 10% of the Dutch workforce). These organizational changes are currently subject to works council proceedings.

No other subsequent events occurred that are material to Signify.

15 Signify N.V. financial statements

Introduction

Statutory financial statements

The sections Consolidated financial statements and Signify N.V. financial statements contain the statutory financial statements of Signify N.V. (the ‘Company’).

A description of the activities of the Company, its subsidiaries and Company structure are included in the Consolidated financial statements. The corporate seat of the Company is in Eindhoven, the Netherlands, and its registered office is at High Tech Campus 48, 5656 AE Eindhoven. Signify N.V. is registered in the Commercial Register of the Chamber of Commerce under number 65220692.

A list of all Signify N.V. subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), forms part of the notes to the statutory financial statements and is deposited at the Chamber of Commerce in Eindhoven, the Netherlands.

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply the International Financial Reporting Standards (IFRS) as endorsed by the European Union, in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 2, Significant accounting policies, of the Consolidated financial statements of this Annual Report and are deemed incorporated and repeated herein by reference. Investments in subsidiaries in the Company financial statements are accounted for using the equity method.

The Statement of financial position included in these Company financial statements has been prepared before the appropriation of result.

15.1 Statement of income

Statement of income in millions of EUR
For the years ended December 31

	Note	2019	2020
Other income		–	1
Other expenses		(3)	–
Financial expenses		(1)	(36)
Share in results of subsidiaries		266	360
Net income	A	**262**	**325**

15.2 Statement of financial position before appropriation of results

Statement of financial position before appropriation of results in millions of EUR
As at December 31

	Note	2019	2020
Non-current assets			
Financial assets	C	2,375	4,151
Total non-current assets		**2,375**	**4,151**
Current assets			
Other assets		1	-
Amounts due from subsidiaries		-	137
Total current assets		**1**	**137**
Total assets		**2,376**	**4,289**
Shareholders' equity	D		
Share capital		1	1
Share premium		2,195	2,201
Legal reserve: currency translation differences		7	(337)
Legal reserve: cash flow hedges		(7)	17
Legal reserve: other		181	157
Other reserve: treasury shares		(68)	(74)
Other reserve: retained earnings		(390)	(95)
Net income		262	325
Total shareholders' equity		**2,181**	**2,196**
Non-current liabilities			
Debt	E	-	2,056
Total non-current liabilities		**-**	**2,056**
Current liabilities			
Debt	E	178	-
Provisions		-	1
Other liabilities [1]		15	15
Trade and other payables [1]		2	21
Total current liabilities		**195**	**37**
Total liabilities and shareholders' equity		2,376	**4,289**

[1] In 2019, Trade and other payables of EUR 2 million were presented in Other liabilities.

15.3 Statement of changes in equity

Statement of changes in equity
in millions of EUR

			Legal reserves			Other reserves			
	Share capital	Share premium	Currency translation differ-ences	Cash flow hedges	Other	Treasury shares	Retained earnings	Net income	Total share-holders' equity
Balance as at January 1, 2019	**1**	**2,179**	**(29)**	**(9)**	**187**	**(65)**	**(497)**	**263**	**2,030**
Appropriation of prior year result	–	–	–	–	–	–	263	(263)	–
Net Income	–	–	–	–	–	–	–	262	262
Net current period change	–	–	35	2	–	–	4	–	41
Legal reserves reclassifications	–	–	–	–	(6)	–	6	–	–
Dividend distributed	–	–	–	–	–	–	(164)	–	(164)
Purchase of treasury shares	–	–	–	–	–	(6)	–	–	(6)
Delivery of treasury shares	–	(2)	–	–	–	3	(1)	–	–
Share-based compensation plans	–	18	–	–	–	–	–	–	18
Balance as at December 31, 2019	**1**	**2,195**	**7**	**(7)**	**181**	**(68)**	**(390)**	**262**	**2,181**
Balance as at January 1, 2020	**1**	**2,195**	**7**	**(7)**	**181**	**(68)**	**(390)**	**262**	**2,181**
Appropriation of prior year result	–	–	–	–	–	–	262	(262)	–
Net income	–	–	–	–	–	–	–	325	325
Net current period change	–	–	(343)	24	–	–	11	–	(309)
Legal reserves reclassifications					(24)		24		
Purchase of Treasury shares	–	–	–	–	–	(38)	–	–	(38)
Delivery of Treasury shares	–	(30)	–	–	–	32	(2)	–	–
Share-based compensation plans	–	34	–	–	–	–	–	–	34
Income tax share-based compensation plans	–	2	–	–	–	–	–	–	2
Balance as at December 31, 2020	**1**	**2,201**	**(337)**	**17**	**157**	**(74)**	**(95)**	**325**	**2,196**

15.4 Notes to the Company financial statements

In millions of EUR unless otherwise stated

A Statement of income

Other income consists of remuneration costs of the directors of the Company and the Supervisory Board which were partly recharged to the subsidiaries of the Company. In 2020, an additional recharge was included related to costs from prior years which resulted in net income of EUR 1 million.

In January 2020, the Company refinanced the term loans maturing in May 2021 that were held by its subsidiaries, with a new term loan structure. In May 2020, the Company issued fixed rate notes. The net proceeds of the notes were used to repay a bridge loan used to finance the acquisition of Cooper Lighting. Term loans refinancing, bridge loan and notes issuance resulted in an increase in Financial expenses in 2020 amounting to EUR 36 million (2019: EUR 1 million).

Share in results of subsidiaries represents the share of the Company in the results of its affiliated companies.

B Audit fees

A summary of Audit fees from Ernst & Young Accountants LLP is shown below.

	2019	2020
Audit fees [1]	5.4	6.8
• consolidated financial statements	3.2	4.4
• statutory financial statements	2.2	2.4
Audit-related fees	0.4	0.5
• sustainability assurance	0.3	0.3
• other	0.1	0.2
Total [2]	**5.8**	**7.3**

[1] The audit fees included in 2020 represent the fees in relation to the audit of the 2020 financial statements.
[2] Fees charged by the Dutch organization of EY were EUR 3.3 million (2019: 2.6 million).

C Financial assets

The Company has one directly-owned subsidiary, Signify Holding B.V. This investment is presented as a financial asset in the Statement of financial position using the equity method. Goodwill paid upon acquisition of investments in subsidiaries is included in the net equity value of the investment and is not shown separately on the face of the Statement of financial position.

During 2020, the Company entered into an uncommitted revolving credit facility agreement of USD 500 million with one of its subsidiaries. The available credit facility amounted to EUR 407 million as at December 31, 2020 and bears interest at LIBOR plus a margin of 0.875% per annum. The translation differences upon revaluation to EUR for this inter-company loan is mitigating the revaluation impact of USD 500 million debt. For further details refer to note E, Debt.

The movement in translation differences in 2020 of EUR 391 million (2019: EUR 35 million) relates primarily to the impact of translating US dollar-denominated investments into euro.

The following table shows the movements in Financial assets.

	Investments	Loan	Total
Balance as at January 1, 2019	**3,737**	**-**	**3,737**
Dividend received	(1,677)	-	(1,677)
Share in results of subsidiaries	266	-	266
Translation differences	35	-	35
Other movements	14	-	14
Balance as at December 31, 2019	**2,375**	**-**	**2,375**
Capital contributions / additions	1,300	454	1,754
Share in results of subsidiaries	360	-	360
Translation differences	(343)	(47)	(391)
Other movements	53	-	53
Balance as at December 31, 2020	**3,745**	**407**	**4,151**

D Shareholders’ 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.

On December 31, 2020, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2019: 128,344,238).

As a defense measure, Stichting Continuïteit Signify, a foundation organized under the laws of the Netherlands, has been granted the right to acquire preference shares in the Company. As at December 31, 2020, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

As a precautionary measure in March 2020, Signify decided to withdraw its proposal to pay a dividend of EUR 1.35 per share to ensure resilience during market uncertainty related to the COVID-19 pandemic and to further strengthen Signify's financial position. As announced on January 13, 2021, a proposal will be submitted to the 2021 Annual General meeting of Shareholders to pay an extraordinary dividend of EUR 1.35 per ordinary share, in cash, from freely distributable reserves.

A further proposal will be submitted to the 2021 Annual General meeting of Shareholders to pay a dividend of EUR 1.40 per ordinary share, in cash, from the 2020 net income.

Treasury shares

The following table shows the movements in the outstanding number of shares over the last two years:

Number of shares

	2019	2020
Balance as at January 1	**126,095,073**	**125,938,631**
Purchase of treasury shares	(240,000)	(1,333,418)
Delivery of treasury shares	83,558	976,158
Balance as at December 31	**125,938,631**	**125,581,371**

The following table shows the share transactions to cover obligations arising from share-based compensation plans (for further details refer to note 27, Share-based compensation of this Annual Report).

	2019	2020
Shares acquired	240,000	1,333,418
Average market price	EUR 25.64	EUR 28.21
Amount paid	EUR 6 million	EUR 38 million
Shares delivered	83,558	976,158
Average price (FIFO)	EUR 32.84	EUR 32.66
Cost of delivered shares	EUR 3 million	EUR 32 million
Total shares in treasury at year-end	**2,405,607**	**2,762,867**
Total cost	**EUR 68 million**	**EUR 74 million**

Legal reserves

As at December 31, 2020, legal reserves related to unrealized losses in currency translation of EUR 337 million, unrealized gains related to cash flow hedges of EUR 17 million and included in other, the ‘affiliated companies’ reserve of EUR 154 million and other reserves of EUR 3 million.

The item ‘affiliated companies’ reserve relates to the ‘wettelijke reserve deelnemingen’, which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2019, legal reserves related to unrealized gains in currency translation of EUR 7 million, unrealized losses related to cash flow hedges of EUR 7 million and included in other, the ‘affiliated companies’ reserve of EUR 178 million and other reserves of EUR 3 million.

Limitations in the distribution of shareholders' equity

As at December 31, 2020, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 176 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 154 million, other reserves of EUR 3 million and unrealized gains related to cash flow hedges of EUR 17 million. The unrealized losses related to currency translation of EUR 337 million, although qualifying as a legal reserve, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2020, amounted to EUR 2,021 million (2019: EUR 1,993 million).

As at December 31, 2019, the limitations in distributable reserves were EUR 189 million related to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 178 million, other reserves of EUR 3 million and unrealized gains related to currency translation differences of EUR 7 million. The unrealized losses related to cash flow hedges of EUR 7 million, although qualifying as a legal reserve, reduce the distributable amount by their nature.

E Debt

New term loan structure and a revolving credit facility

In January 2020, the Company refinanced the term loans held by its subsidiaries 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 Signify has two investment grade ratings.

The new term loan structure bears interest at a variable rate based on the relevant applicable EURIBOR and USD LIBOR respectively with zero floor plus a margin. As at December 31, 2020, the margin was 0.65% for the term loans maturing in January 2023 and 0.75% for the term loans maturing in January 2025, and is subject to change depending on the public credit rating of Signify assigned by rating agencies.

As of September 2020, following the repayment of EUR 350 million of debt, the committed term loan structure consists of EUR 50 million and USD 275 million maturing in January 2023 and EUR 340 million and USD 225 million maturing in January 2025. As at December 31, 2020, the value of the loans amounted to EUR 794 million.

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. As at December 31, 2020, the value of the Eurobonds amounted to EUR 1,262 million.

For the movements in debt refer to the table below.

	Facility (EUR)	Facility (USD)	Eurobonds	Bridge Loan	Total
Balance as at January 1, 2020	-	-	-	-	-
New borrowings	740	454	1,270	1,261	3,725
Repayments	(350)			(1,291)	(1,641)
Translation differences		(47)		30	(18)
Other movements	(1)	(1)	(8)	-	(11)
Balance as at December 31, 2020	**389**	**406**	**1,262**	**-**	**2,056**

F Employees

The number of persons employed by the Company at year-end 2020 was four (2019: three); all were employed in the Netherlands. For the remuneration of past and present members of both the Board of Management and the Supervisory Board, refer to note 28, Information on remuneration of this Annual Report, which is deemed incorporated and repeated herein by reference.

G Contingent liabilities not appearing in the balance sheet

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of other group companies in the Netherlands. The liabilities of these companies to third parties amounted to EUR 452 million as at December 31, 2020, (2019: EUR 1,211 million).

There have been no other general guarantees or credit guarantees given on behalf of unconsolidated companies and third-parties.

For corporate income tax purposes, the Company is the parent of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the corporate income tax liabilities of the tax unity.

H Events after the balance sheet date

For the disclosure of events after the balance sheet date, reference is made to note 30, Events after the balance sheet date, of this Annual Report, which is deemed incorporated and repeated herein by reference.

On February 23, 2021, the Board of Management authorized the statutory financial statements for issue. The statutory financial statements as presented in this report are subject to the adoption by the Annual General Meeting of Shareholders, to be held on May 18, 2021.

February 23, 2021

Board of Management
Eric Rondolat
Javier van Engelen
Maria Letizia Mariani

Supervisory Board
Arthur van der Poel
Gerard van de Aast
Eelco Blok
Pamela Knapp
Rita Lane
Frank Lubnau

16 Sustainability statements

16.1 Approach to sustainability reporting

Our sustainability program Brighter Lives, Better World is not a standalone program. It is embedded in our purpose and integral to our strategy and the way we do business. And we believe we have an important role to play in helping achieve the United Nations Sustainable Development Goals (SDGs). They have been our strategic compass in creating our Brighter Lives, Better World program and commitments. We report our contribution to six SDGs: 3 - Good health and wellbeing; 7 - Affordable and clean energy; 8 - Decent work and economic growth; 11 - Sustainable cities and communities; 12 - Responsible consumption and production; and 13 - Climate action. Through our activities, we contribute to the achievement of these SDGs.

We create value along the financial, environmental and social dimensions and we have made our approach towards long-term value creation transparent by preparing this Annual Report with key elements of the International Integrated Reporting Council's (IIRC) Integrated Reporting framework and reporting in accordance with the GRI Sustainability Reporting Standards.

At the core of our reporting approach is the value creation model. This model shows how our business activities depend on various financial, environmental, and social resources that are converted to outputs. Our activities and their outputs lead to outcomes in terms of the impact made on our stakeholders and society at large. Since 2017, Signify communicates its impacts in monetary terms, enabling more effective and efficient decision making and giving a holistic view on our most prominent risks and opportunities. It also provides further transparency to our stakeholders on company performance. By publishing the results of our analysis and being transparent on the methodology, we strive to contribute to developing a global standard for impact analysis.

Our external auditor Ernst & Young Accountants LLP (EY) has provided reasonable (highest level) assurance on our sustainability performance and sustainability statements in this Integrated Annual Report. To read the combined assurance statement, please refer to chapter 17, Combined independent auditor's report, of this Annual Report.

16.1.1 Definition of Signify's strategic focus: our materiality assessment

Our materiality assessment is the first step towards defining our strategy. By identifying future trends and understanding stakeholders' perspectives at a global and local level, we are better able to manage the risks and opportunities that could impact our ability to create value in the long term.

We evaluate materiality along two axes. The vertical axis captures the importance of each topic for external and internal stakeholders. The horizontal axis captures our company's significant economic, environmental, and social impacts, both positive and negative. Assessing both aspects enables us to prioritize and focus on the most relevant issues in terms of our efforts as well as reporting progress in this Annual Report. Our materiality assessment was conducted using the GRI Standards' principles for defining report content.

Continuous stakeholder engagement

Through dialogue with key stakeholders, we have gained significant insights into how to create value and anticipate risks. Accordingly, we are better equipped to understand society's needs and translate them into our company strategy and goals. Working closely with key stakeholders strengthens our ability to address their needs and concerns.

Through different engagement channels, we inform our stakeholders about our activities, the measures taken and the results.

Stakeholders considered most relevant to our success include customers, employees, investors, suppliers, governments, and civil society organizations. These stakeholders are most likely to be impacted by our activities and have the most influence on achieving our commitments. In addition to our strategic conversations with these stakeholders, we hold memberships and are active in many organizations including the Carbon Disclosure Project (CDP), the World Economic Forum (WEF), the Responsible Business Alliance (RBA), and The Climate Group. For more information on the work we perform with stakeholders, please refer to sub-section 16.3.6 Working with stakeholders.

Ongoing stakeholder engagement activities (non-exhaustive)

Stakeholder group	Stakeholder engagement processes	Exemplary topics discussed
Customers	Business development, lean value chain projects, consumer panels, Net Promoter Scores, social media, customer surveys, key account management, sustainability exchanges with customers	(Sustainable) revenues- and innovation Satisfaction rates ESG-performance
Employees	Regular meetings, quarterly team surveys, bi-annual employee development process, quarterly update webinars	Strategic alignment sessions Training & Development Engagement
Investors and analysts	Virtual roadshows, (ESG) investor conferences, investor webcasts, investor relations website, investors' perception study	Strategic alignment sessions ESG-performance
Suppliers	Supplier development and quality activities including topical training sessions, industry working groups such as EPRM and RBA, and the commodity management, supplier quality and procurement engineering functions	Sustainability performance Peer-learning
Governments, municipalities	Annual innovation experience, research projects, policy and legislative developments, business development	Sustainable cities Energy efficiency Sustainable innovation
Civil society organizations	Partnerships with NGOs, cross-sector (multi-stakeholder), projects, supplier sustainability stakeholder day, our social investment program, the Signify Foundation	Social impact of light Sustainable operations Sustainable revenues

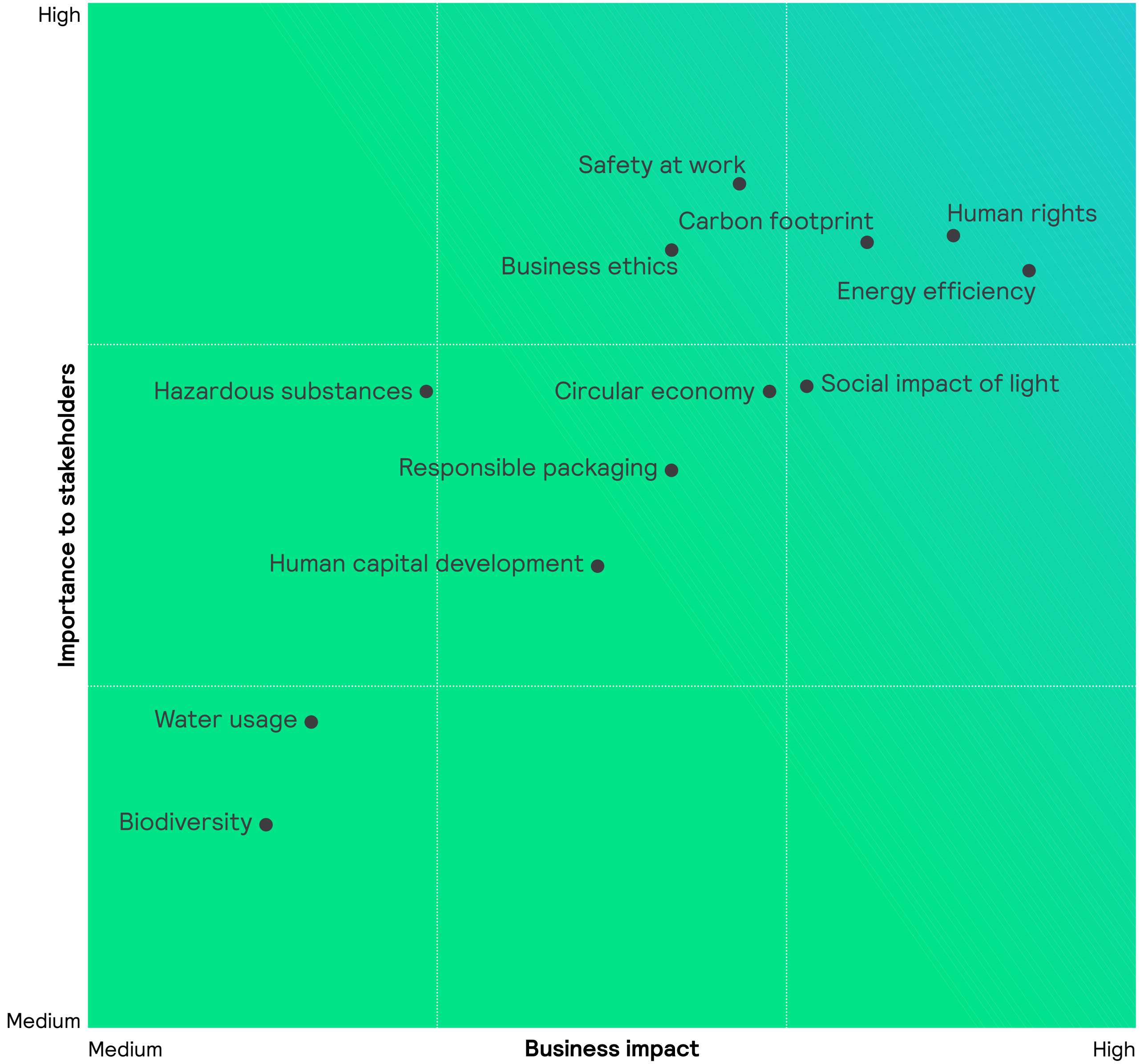
Our 2020 materiality assessment

We use different sources of information to identify possible material topics. These include media and trend analyses as well as continuous conversations with strategic stakeholders. To prioritize these topics, Signify organizes dedicated stakeholder engagement activities every year. In 2020, instead of an in-person meeting, this consisted of an online survey reaching out to 425 internal and external stakeholders (response rate of 25%) and internal strategic discussions.

As an outcome of the assessment, Energy efficiency, Human rights and Carbon footprint are our most material topics. Business ethics is becoming more important for our stakeholders compared to last year. Safety at work remains very important, especially in times of a global pandemic and is given a high priority with strong processes in place. The result of the materiality assessment has been reviewed by the Leadership Team and the Supervisory Board.

An overview of each material topic and its sub-topics can be found in the table below. The details of our 2020 materiality assessment, as well as the definition of each material topic can be found in the Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Materiality matrix



Signify material topics – The table showcases the link between our sustainability program, our contribution to the SDGs and our material topics and their boundaries.

	Priority SDG	Material topic	Sub-topic included	Our contribution	Boundary
Brighter Lives	8 Decent work and economic growth	**Human capital development**	• Employee engagement • Diversity and inclusion • Talent management	16.3.1 Human capital development	• Own operations • Own operations • Own operations
		Human rights	• Human rights in our operations • Living wages • Social responsibility in our supply chain • Responsible mineral sourcing	16.3.2 Human rights	• Own operations • Own operations / Supply chain • Supply chain • Supply chain
		Safety at work	• Occupational Health & Safety	16.3.3 Safety at work	• Own operations
		Business Ethics	• Acting with integrity • Product quality • Share-performance & pay-out policy • Responsible procurement practices • Responsible tax policy • Big data and customer privacy	16.3.4 Acting with integrity 16.3.4 Acting with integrity 11.6 Share performance 11.4 Capital allocation 16.3.2 Human rights 16.3.4 Acting with integrity 16.3.4 Acting with integrity	• Own operations • Use phase • Own operations • Own operations • Own operations • Use phase
	3 Good health and well-being 11 Sustainable cities and communities	**Social impact of light**	• Human-centric lighting • Food availability and quality • Access to light	16.3.5 Social impact of light	• Use phase • Use phase • Use phase
Better World	7 Affordable and clean energy	**Energy efficiency**	• Energy efficiency of our products, systems and services	16.4.1 Energy efficiency of our products, systems and services	• Use phase
	12 Responsible consumption and production	**Circular economy**	• Circular economy portfolio • Weight & materials • Waste management	16.4.3 Circular economy	• Use phase • Own operations / Use phase • Own operations
		Responsible packaging	• Responsible packaging	16.4.4 Responsible packaging	• Use phase
		Hazardous substances	• Products substances • Regulated substances in production processes	16.4.5 Hazardous substances	• Use phase • Own operations
		Water usage	• Water usage	16.4.6 Water usage	• Own operations
	13 Climate action	**Carbon footprint**	• Operational carbon footprint • Carbon footprint of our supply chain	16.4.2 Carbon footprint and energy	• Own operations • Supply chain
		Biodiversity	• Biodiversity	16.4.7 Biodiversity	• Own operations

In the sections that follow we explain how we manage social and environmental material topics in our operations, supply chain and products.

16.1.2 Sustainability governance

The Sustainability function, including Environment, Health & Safety, headed by Nicola Kimm, consists of global, regional and local sustainability professionals and falls under the responsibility of the Board of Management member and Chief Strategy & Marketing Officer, Maria Letizia Mariani. Progress is reviewed on a quarterly basis by the Board of Management and the Leadership Team. During these meetings, progress on strategic programs is reviewed and corrective actions are taken when necessary.

Progress is also reviewed with the Supervisory Board on an annual basis. In addition, the results of our sustainability programs are communicated on a quarterly basis to Signify employees and on our website to external stakeholders.

Sustainability programs are embedded in the Signify organization and ways of working. Examples of departments that implement sustainability programs include sales, innovation, manufacturing, sourcing, and logistics. Targets on sustainability are set both at a corporate level and at a division level.

16.1.3 Program targets

Our sustainability commitments are grouped under our sustainability program Brighter Lives, Better World, launched in September 2016. Targets for this program were set for a five-year period, until the end of 2020. Changes in targets, policies, definitions or scope are specified annually. There are no changes in targets, policies, definitions or scope to be reported in 2020.

Additionally, to ensure our efforts are in line with the targets of the Paris Agreement, we have set Science-Based Targets in relation to our emissions. For more details, please refer to sub-section 16.4.2 Carbon footprint and energy.

Signify has a target of reaching 5 million lives with renewably powered lighting and supporting 10,000 people with technical and business skills development in 2020 (baseline 2017). For more details, please refer to sub-section 16.3.5 Social impact of light.

In 2020, we embarked on a new five-year journey to double our positive impact on the environment and society. Our Brighter Lives, Better World 2025 targets can be found in section 3.2 of this Annual Report and on our website: https://www.signify.com/global/sustainability/brighter-lives-better-world-2025.

Program targets

Program	Target 2020
Sustainable revenues	80% of revenues
LED lamps & luminaires	>2 billion LED lamps & luminaires delivered cumulatively (baseline 2015)
Operational carbon footprint	Net 0 kt CO_2 emissions
Electricity	100% of electricity from renewable sources
Waste to landfill	Zero waste to landfill
Health & Safety	Total recordable case rate of <0.35
Sustainable supply chain	Minimum performance rate of 90%

Science-Based Targets

	Baseline	Target 2030
Carbon emissions from scope 1 and scope 2	2015	70% reduction
Carbon emissions from scope 3 (use of product)	2015	30% reduction

16.1.4 Reporting standards

This report has been prepared in accordance with the GRI Standards: Comprehensive option. We also used additional company disclosures.

An overview of the information on data definitions, measurements and any uncertainties inherent to measurements can be found in the Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads. These supplements also include more information on our 2020 materiality assessment, a GRI Content Index presenting the overview of the GRI disclosures, a mapping to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and to the E.U. Directive on non-financial information.

New Signify ventures and acquisitions are included in environmental and social disclosures to the extent that the integration process of these ventures has been finalized. The normative integration period is two years. Divestures completed before December 31 of the book-year are excluded from environmental and social reporting.

In 2020, Signify re-committed to the United Nations Global Compact to advance 10 universal principles in the areas of human rights, labor, the environment, and anti-corruption efforts. This report also serves as our annual Communication on Progress (COP) towards abiding by these principles.

16.2 Sustainable Innovation

Innovation is an important pillar of Signify's purpose: to unlock the extraordinary potential of light for brighter lives and a better world. Our sustainable products and systems must demonstrate proven measurable benefits in one or more of the eight sustainable focal areas (SFAs) compared to the relevant, regularly updated benchmark.

We have five Better World SFAs:

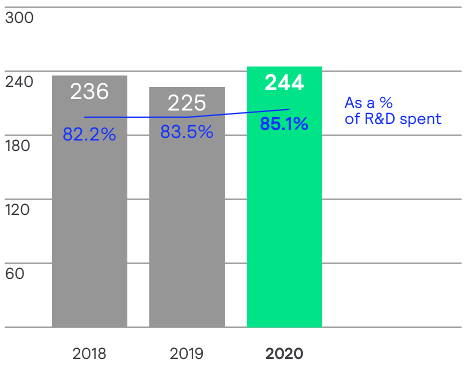
- **Energy** – increasing energy efficiency of products, systems and services
- **Packaging** – reducing packaging weight / volume, increasing recycled content and eliminating the use of plastics
- **Substances** – eliminating harmful substances
- **Weight & materials** – reducing product weight and selecting sustainable materials
- **Circularity** – avoiding waste and optimally preserving value

And three Brighter Lives SFAs:

- **Access to light** – providing light in off-grid and underserved areas
- **Food availability** – providing light that increases productivity of food by ≥10% vs benchmark
- **Human-centric lighting** – providing light which increases wellbeing and performance

Our sustainable innovations continue to revolutionize the lighting industry. In 2020, we invested EUR 244 million in sustainable innovation which represents 85.1% of Signify R&D expenses (83.5% in 2019). Increasing investments in digital lighting solutions, cloud computing and circular economy designs have led to further improvements in the areas of energy and circularity. At the same time, sustainable innovation also addresses social needs such as Access to light, Food availability and Human centric lighting. We believe that sustainable innovation will help create a more future-proof and purposeful portfolio of products, systems and services.

Sustainable innovation in millions of EUR



2020 includes Cooper Lighting and KLite.

16.3 Brighter Lives

16.3.1 Human capital development

Mark van Bijsterveld, Chief HR Officer Signify

"To continue our transformation into the new age of connected lighting, we need the industry's very best people. That's why at Signify we focus on developing all our employees and selectively attracting new, diverse talent. Creating a workplace where people belong, have impact and take pride in the company is at the heart of our people strategy. We celebrate our successes, learn from our failures, and work in a style of radical collaboration to continuously improve. Our diversity initiatives and inclusive environment facilitates continuous performance and learning. I'm proud to be part of this remarkable team and how together we have ensured business continuity and performance in 2020. This was a year like no other with the COVID-19 pandemic affecting all aspects of our lives. Our company quickly adapted to this new reality in the way we work, making sure our employee's health and safety came first and all together ensuring we continued to serve our customers. The solidarity shown by our employees during this challenging year makes me proud to work for Signify and truly showed we are greater together."

Our people are central to unlocking the extraordinary potential of light for brighter lives and a better world and we continue our journey to be a great place to work. We are investing in our people's growth and development, creating a diverse and inclusive workplace, and reskilling to enhance our digital and commercial competencies. With our company purpose and values, we provide our people with a common direction about why we exist, what we value, and how we work.

At Signify, we put the Customer First. We will always be Greater Together by collaborating across teams to build on our strengths and diversity, and work towards our shared goal. We are a Game Changer, innovating to set ourselves apart and continue to lead in the industry. We have Passion for Results by working smarter and faster to deliver with excellence.

Employment

The total number of Signify employees was 37,926 at the end of 2020, compared to 32,005 at year-end 2019. This number includes our newly acquired companies Cooper Lighting and Klite. The data further provided in this section excludes employees from these acquisitions (representing a third of the total workforce), as integration in our human resources system has not yet been fully completed.

Approximately 24% of our employees were employed by one of our three divisions, focusing on research & product development. 20% were employed in one of our markets, focusing on sales & marketing. 46% of our employees were in operations, focusing on manufacturing, supply chain and procurement. The remaining 10% worked in corporate functions.

In line with the industry transformation from conventional to LED technologies and connected lighting systems and services, we expect that the nature of the current workforce will continue to evolve.

Employees in FTEs

	2018	2019	2020
Signify total	29,237	32,005	37,926

In 2020, the total employee turnover was close to 32%, which is 9% less than last year. This was due to a decreased staff turnover mainly in the Americas region.

Employee turnover breakdown in 2020 in %

	Staff (majority in factory)	Professional	Mid Level Professional	Senior Level Professional	Leadership
	24.1%	4.2%	2.8%	0.5%	0.1%
of which voluntary	38%	46%	52%	49%	73%
of which involuntary	62%	54%	48%	51%	27%

Talent Management

With more than 37,900 talented and engaged employees all over the world, it is our people who are central to the effective execution of our strategy. We believe that we will maintain our position as the market leader in lighting by being a talent-builder, developing and growing people from within. We want our employees to have a challenging and rewarding work experience. One where they can grow and make an impact, where they gain new experiences and develop themselves. We do this by offering employees attractive and relevant learning and career development opportunities and by strengthening the leadership and diversity pipeline across the organization.

In 2020, we launched our new internal career website. This easy-to-use platform offers a place to search for vacancies, find stretch assignments, read inspirational career journey stories and follow learning paths – all in the service of pushing the boundaries of people development. After its implementation, we saw a 36% increase in internal applications. We also introduced our Global Mentoring Platform which enables employees to develop themselves by exchanging experiences and knowledge whilst broadening their professional network within the company. To reach our commitment of doubling the percentage of women in leadership to 34% by 2025, we are putting specific emphasis on women in succession plans and our EDGE leadership programs, in addition to launching sponsorship and mentoring programs for female talent and the Women4More career program.

Our approach to talent is to continuously build and develop employees' functional and leadership skills, whilst attracting new, diverse talent where critical capabilities are needed to strengthen our talent pool to achieve our strategic objectives. In 2020, we welcomed 6,084 external talents to help bring our business vision to life, most of whom were employed in manufacturing and sales functions.

In line with our people philosophy to promote talent from within the organization, 83% of our senior management and leadership roles were filled internally.

A strong global employer brand with local relevance in the digital age

In October 2020, we launched our refreshed Employer Value Proposition (EVP): Shine Brighter at Signify – together we unlock the extraordinary potential of light for brighter lives and a better world. The sustainability proposition is aligned with our Signify 2025 sustainability commitments, focusing more on continuous learning as well as diversity and inclusion.

We continued to focus our recruitment marketing campaigns on the most critical segments, to drive our transformation and growth and build talent pipelines. In 2020, a special focus was put on the target groups of marketing and sales with relevant messaging customized per region and reflecting our EVP.

As part of our global talent acquisition strategy, we continue to attract talent from proven high quality sources. In 2020, the main sources of hire were:

- **Internal** – Over the last few years we have filled approximately 30% of our vacancies internally.
- **Employee referral** –13% of our new hires came from employee referrals.
- **Sourcing** – Our recruiters focus on proactively building talent pipelines and identifying talent, supported by recruitment marketing campaigns to increase awareness and drive conversion for-hard-to-fill roles.
- **Signify careers website** – Via our content strategy on social media "Humanizing our employer brand", employees shared why Signify is a great place to work, in alignment with our values and EVP and enabled us to outperform competition. In 2020, 68% of the hires that used LinkedIn to explore and discover opportunities at Signify were influenced by our content.

The Signify global career website can be found at www.careers.signify.com.

Employee engagement

‘Be a great place to work’ is one of our 5 strategic frontiers, and employee engagement is key to our competitive performance and integral to our people vision: creating a workplace where people belong, have impact and take pride in the company we build together. Engaged employees are emotionally committed to our company. They help us to meet our business goals and sustainability commitments, whilst contributing to a dynamic, high-performance workplace. In 2020, to foster employee engagement on sustainability, we continued our quarterly campaigns around the themes of safety at work to prioritize employees’ health during the COVID-19 pandemic, zero waste and carbon neutrality with our carbon neutral Cook-along challenge.

Given that employee feedback and engagement is so critical, seven years ago we introduced a quarterly survey currently known as the Team survey, with the accompanying promotion of Team dialogues for people managers and their teams. This Team survey has questions in line with our company purpose and values and it proved to be a positive driver of employee engagement to increase team effectiveness. As a result, we will continue to run the Team survey on a quarterly basis to monitor engagement.

This year, we introduced a Team survey platform for managers to view their survey results in a dynamic dashboard. They can easily monitor the response rate and the history for their team(s). Furthermore, the platform gives managers access to an action planning tool where they can list their priority questions and consult a library of action tips to prepare for their Team dialogues.

In 2020, we saw the following company results: 88% of our employees underlined that we truly put our Customer First (2019: 86%); 89% of our employees acknowledged that we are Greater Together (2019: 87.3%); 90% of our employees felt that we are considered a Game Changer (2019: 88%) and 81% of our employees agreed that we have Passion for Results (2019: 79.3%).

We noted that we need to continue improving in the areas of effectiveness and recognition. Initiatives to address our improvement points are driven at a team level via our Team dialogues, and in addition we continue to track progress on these questions during our Quarterly Performance Reviews.

To measure employee satisfaction, the Net Promoter Score (NPS) methodology is used as part of our Team survey. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. In 2020, the Team survey had an average employee response rate of 83% which is the highest since we began running the survey (2019: 80%). At the end of Q3 and Q4 2020, we recorded an unprecedented NPS score of 29 across the Signify population, leading to an average annual score of 25 (2019: 18). While employees had to face challenging new ways of working due to the COVID-19 pandemic, the company safeguarded employee’s health and took multiple actions to enable employees to stay connected, which translated into a strong employee NPS.

Diversity and inclusion

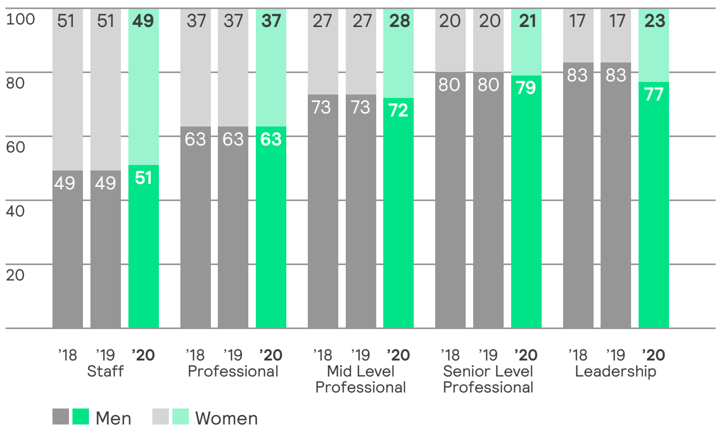
At Signify, we believe that a diverse workforce and an inclusive work environment are essential to a thriving innovative business and long-term value creation. We are an equal opportunity employer committed to diversity, equity and inclusion in the workplace. This means we celebrate and foster an environment in which all ideas, perspectives, experiences and styles are highly valued and where all individuals are treated fairly with equal access to opportunities and resources. Diverse representation in our workforce is critical for our long-term success as a company. It enables us to understand, connect and communicate with our customers, end-users and stakeholders whilst helping us to attract and retain people who want to be part of our purpose to create brighter lives and a better world. Our Diversity and inclusion strategy reinforces our Greater Together value which enables us to make better decisions, boost innovation, create growth and strengthen our culture.

In 2020, we anchored diversity and inclusion in our company strategy with our commitment to create a great place to work. We also took the opportunity to review and update our approach to diversity and inclusion in light of the many global societal shifts, reinforcing our existing “2+1” approach i.e. global focus on 2 specific diversity dimensions with space for markets, divisions and functions to implement initiatives which are important and relevant locally. Some recent examples include the creation of a Diversity Equity and Inclusion Committee in the US, a 12-week online Gender Awareness program in the UK & Ireland and a series of Diversity and inclusion dialogues to understand cultural differences in Greater China.

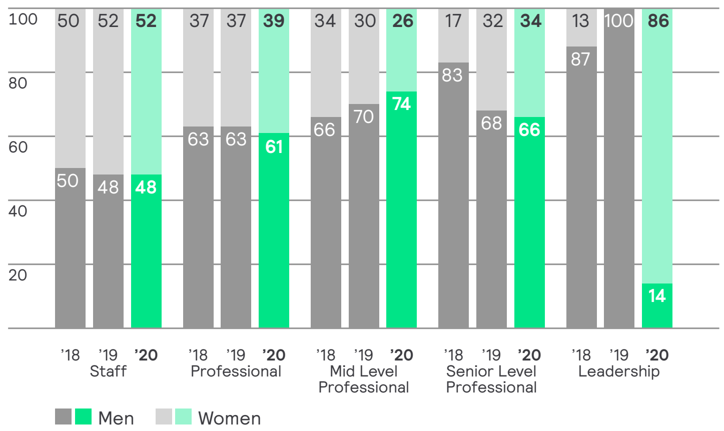
In 2020, our Diversity and inclusion Champions network grew to around 60 members, welcoming colleagues from Cooper Lighting, who continue to drive actions locally and share best practices. Our Diversity and inclusion Board, created in 2019, continues to structure and advance our strategy and we extended our offer of diversity and inclusion online learning pathways to include, amongst others, an introduction to unconscious bias.

Fostering an inclusive culture and feeling of belonging, where people take pride in the company we are building together, remains key. Globally, we recognize the need for more diverse representation in the areas of gender and generation and we continually monitor related data to support our aim of reaching greater diversity representation in our organization. Over the past three years we have maintained representation from different generations in our workforce. We plan to further improve our generational diversity in the future by increasing the inflow of early career talents.

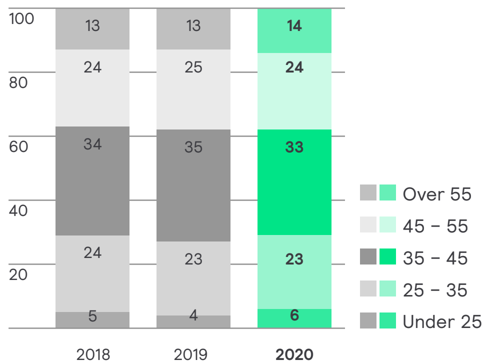
Gender diversity in % [1]



New hire diversity in % [1]



Employee per age category in %



2 In 2020, we changed our job categories; prior years have been revised to conform with current year presentation.

In 2020, 39% of Signify employees were women and 23% of leadership roles (positions graded H22+ on the Hay grading scale) across the company were held by women. In 2020, 49% of our new hires were women, a similar percentage to last year (2019: 48%).

From a generational perspective, 29% of employees were 35 years old or under. The average age of our workforce is 41 years old and we have the ambition to lower it over the next few years by attracting and retaining early talents.

As a company, we are naturally diverse operating in 74 countries with more than 90 nationalities represented in our workforce.

We're committed to hiring more diverse talent for jobs at all levels, attracting candidates from more diverse pipelines and driving development and internal mobility to increase representation across our company. Globally we recognize that we have not advanced in being truly more diverse in our workforce, especially in management and executive positions, therefore we intensified our focus this year on increasing the representation of women and early career talents in our company.

As part of our Brighter Lives, Better World 2025 commitments to double our positive impact on the environment and society, we will strengthen our commitment to diversity and inclusion and aim to double the percentage of women in leadership in our business to 34% by the end of 2025.

Equal remuneration

Signify' s commitment to equity and inclusion includes a policy for equal pay for equal, or substantially similar, work. Signify establishes formal pay policies and practices that govern hiring, benefit entitlements, annual merit, and promotional guidelines to ensure equity. Further, Signify performs regular reviews which are designed to ensure compliance with our policy of equal pay for equal work and all local legal requirements in the countries in which we operate.Our regular review process includes a comprehensive statistical analysis of pay to employees across the world. Any statistically significant variance within any employee group is promptly addressed.

Leadership and Development

At Signify, we are committed to learning and consider continuous learning and development to be a key differentiator in enriching the lives and careers of our employees, enabling growth, engagement, and fulfillment. We offer new approaches to learning and apply them daily. A clear demonstration of our learning culture was the introduction of our social learning platform Learning@Signify. This global online learning platform enables employees to learn in their own way, co-create and share their expertise. At the end of 2020, 97% of the employees having access to a computer were on the Learning@Signify platform (2019: 94%) and 60% have begun to consume, share and promote learning actively (2019: 49%).

The Signify Learning Centre of Expertise (LCoE) in strong collaboration with our Talent Management Team offers all forms of learning opportunities, enabling learning on the job through challenging (stretch) assignments (experience), providing coaching and mentoring (exchange) and offering formally structured learning methods such as classroom teaching and online courses (education). We support our learning by always acting with integrity, whereby all employees are required to complete mandatory learnings related to privacy law, security, and regulations in line with our Integrity code.

In 2020, 44,463 learning modules and periodicals were offered through the LCoE, collaborating with the best content providers like Harvard Manage Mentor, Pluralsight, Coursera, CertifiedSecure and MindGym. More than 415,720 e-learnings were booked centrally compared to 384,000 in 2019 and 210,000 in 2018.

Based on our value creation methodology, Signify has created EUR 3.24 million in value for our society through its employees' learning and development programs.

Leadership development

Linked to the people pillar of our 5 Frontiers strategy – be a great place to work – we continue to ensure that our leadership development experiences are aligned to this and to our talent philosophy. For 2020, given the necessity to adjust to the travel limitations due to the COVID-19 pandemic, we re-designed our EDGE I leadership development experience to a completely virtual 12-week program. The EDGE I program built on the partnership we have with Ashridge HULT. This ensured that our first-time leaders continued to get support in their roles and that we continue to build a pipeline of future-ready leaders who can further take the company to paths of excellence and sustainable growth.

In 2020, the program added a 360-degree feedback as a foundational part of the experience, as well as introducing 1-on-1 peer coaching, self-directed virtual learning, group activities focused on inclusive leadership, innovation and sustainability, all linked with a pre/post call, Action Learning Sets and a Certificate of Application to measure the learning effect. In 2020, we completed 3 EDGE I leadership programs, with each class of around 30 participants.

As we move into 2021, we will continue to improve the leadership development experiences focusing on virtual EDGE II and EDGE III experiences for more senior leaders. We will also look to further enhance our People Manager and Leadership Principles learning tracks, ensuring that our leaders are equipped to lead, develop and inspire our people.

Let's Get Systemized!

In 2020, we continued to work on commercial excellence, upskilling our sales talents in markets to increase the opportunity win-rates in a highly competitive business context. Over 50 subject matter experts joined the movement and created agile learning content in their respective fields of expertise, such as Interact, Dynalite and Color Kinetics, making use of the full potential of the Learning@Signify platform.

The design reflects our blended learning vision – allowing people to not only discover the latest content on the value propositions via reading or watching videos, but also stimulating them to take part in the dialogue and meet virtually on a regular basis to discuss challenges and learn from peers. Markets embraced this opportunity to learn and connect with experts and peers and were encouraged to get the needed "license to sell" within their sub-segment.

With close to 5,000 active learners and over 1,000 people actively engaging with each other in our "System Talks", Signify employees are taking ownership of their learning. The program proves that we have a wealth of knowledge inside our company and strengthens our muscle to increase our market share in the System and Services business.

Reskilling for digital excellence

Digitalization is an essential part of our 5 Frontiers strategy and it is equally becoming a necessity to remain relevant and keep pace with the changing nature of work. To enable this, we want our employees to have an opportunity to invest in themselves by learning new concepts and skills, to equip them for the future. We are accelerating our online learning investments to support all our employees and build organizational resilience.

In 2020, we initiated several programs for reskilling which are designed around critical digital competencies such as: Robotic Process Automation (RPA), Data & Analytics (AI / Machine Learning / Data Analytics), Cloud Computing, Information & Cyber security, AGILE (SAFe & SCRUM), eCommerce, critical thinking, adaptability and collaboration.

Through the award-winning Harvard Manage Mentor leadership suite, employees also have access to over 40 individual online modules on personal development, business and management skills, and additional Leadership content via Harvard's SPARK package.

The suite of the reskilling programs will be aligned with our Digital transformation strategy to enable our organization to digitalize our customer interfaces and internal processes, our products and services, and will equip our employees and leaders with the necessary skills.

Leaders across the region have used the Learning@Signify platform and various featured external learning partners to provide employees with the support they need in this challenging and yet exciting period.

16.3.2 Human rights

Our approach

Acting with integrity is at the heart of Signify's culture and is an integral part of how we do business. Respecting human rights is a central foundation of the way we work. Our commitment to respecting and promoting human rights extends beyond our own operations, across our wider sphere of influence, including our supply chain. To that end, we integrate human rights considerations into our policies, processes, and practices.

Our Human Rights policy is based on the International Bill of Human Rights, the United Nations Global Compact Ten Principles, and the International Labour Organization's declaration on Fundamental Principles and Rights at work. Signify carries out continuous research and stakeholder engagement activities to identify the most salient ethical and social principles that govern our relationship with stakeholders worldwide.

The table on the right shows, in random order, the salient issues identified and the stakeholders they affect, as well as references to the sub-sections of this report that contain the progress that Signify made in addressing these issues.

Salient human rights issues

	Salient human rights issues	Rights holders covered in our programs			Reference to our disclosures
		(3rd party) employees	Direct suppliers	Indirect suppliers	
1	Freedom of association and collective bargaining	•	•		16.3.4: Acting with integrity 16.3.2: Social responsibility in our supply chain
2	Safe & healthy workplace	•	•		16.3.3: Safety at work 16.3.2: Social responsibility in our supply chain
3	Working hours	•	•		16.3.4: Acting with integrity 16.3.2: Social responsibility in our supply chain
4	Equal employment opportunities and respect	•	•		16.3.1: Diversity and inclusion 16.3.2: Social responsibility in our supply chain 16.3.4: Acting with integrity
5	Recognition and reward	•	•		16.3.2: Human rights 16.3.4: Acting with integrity 16.3.2: Social responsibility in our supply chain
6	Forced and child labor		•	•	16.3.2: Social responsibility in our supply chain
7	Employee development	•			16.3.1: Leadership and Development 16.3.4: Acting with integrity

Human rights risk assessment

Compliance to the Human Rights policy is governed through our Integrity code processes, combined with dedicated steps that help ensure adherence.

In 2020, employees were requested to complete e-learnings that helped interpret our Integrity Code. Dedicated communication campaigns urged everyone to speak-up and report concerns of possible violations. In those campaigns, the availability of our Ethics hotline was also highlighted. This initiative is an integrated and ongoing activity we have embedded in our business and business principles, which we redeploy on a regular basis and share with our new employees as part of their on-boarding program.

Based on a country risk assessment, multiple manufacturing locations were considered to have an increased likelihood of policy violations. Since 2017, these locations are requested to periodically fill in a dedicated self-assessment on human rights. In 2020, no systemic violations were identified at any of the sites.

Living wages

Recognition and rewards has been identified as an important engagement driver for our employees and direct suppliers. By ensuring good working conditions, Signify not only aims to provide a fair, safe, and respectful environment, but also an inspiring place to work and grow. Fair remuneration is considered a precondition for our employees to flourish. It is our company policy to offer remuneration that meets or exceeds the provisions of all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. Additionally, Signify launched its Living Wages program in 2017.

Every two years, Signify performs an analysis of salaries and benefits for employees globally with respect to living wage, covering the necessary living costs. We compare our living wages to the WageIndicator Foundation database. In 2019, Signify performed an analysis that showed that company standards exceed the living wage standards in all countries examined (such as the Netherlands, China or India).

Fair compensation in terms of wages, overtime and benefits for our suppliers' employees in risk countries is part of our sustainable supply chain program. Through our intervention, 98% of our risk suppliers met our requirements.

In 2020, we started to collect relevant data among our suppliers and we will continue to do this in 2021.

Social responsibility in our supply chain

Signify has developed programs over the years to prevent Human Rights violations in its supply chain. We have a direct business relationship with approximately 3,290 product and component suppliers. Responsible procurement practices and management of our supply chain require a structured and innovative approach due to the wide variety of stakeholders.

Our programs cover the assessment and development of supplier sustainability performance (audits and training) and responsible minerals sourcing. Through our efforts, we foster decent work and economic growth by improving the safety & wellbeing of suppliers and directly contribute to the SDG 8: Decent work and economic growth.

Supplier sustainability performance

The core of our supplier sustainability performance program is the Supplier Sustainability Declaration (SSD).
This declaration forms an integral part of our supplier contracts and can be found on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/supplier-sustainability-management.

The SSD is derived from the Responsible Business Alliance (RBA) Code of Conduct and sets out the standards and behaviors we require from our suppliers and their suppliers. It covers labor, health & safety, environment, ethics and management systems. We monitor supplier compliance with the SSD through a system of regular audits. In the RBA Code of Conduct and in our SSD, special attention is given to the prevention of human slavery as referred to in the United Kingdom (UK) Modern Slavery Act Disclosures and the California Transparency in Supply Chains Act.
The formal statement on these legislations can be found on our website (see link above).

For selected suppliers in risk countries, full audits are performed in a three-year cycle by an independent audit firm. If non-conformances are identified, we require the supplier to develop and execute a corrective action plan.
We support our suppliers to correct the non-conformances, for instance by providing training or sharing best practices. We monitor the execution of the corrective action plans until the supplier is compliant with our requirements. In case of delays, the supplier is classified as non-compliant in our Tritium program and we apply a stratified approach for consequence management. Tritium is a program that helps us develop a strong supply chain with best-in-class suppliers and is based on selection and rewards criteria against our strategic priorities. We work with each supplier to resolve non-conformances within ninety days, where possible.

As presented in the table below, in 2020 we audited 73 of our current risk suppliers, including 53 continued conformance audits with suppliers that were previously in the three-year cycle. In 2020, the majority of the audits were done in China. Through these audits, we reached 71,612 workers employed at supplier production sites.
In 2020, the average audit score of our risk suppliers was 72 (2019: 66). Risk suppliers new to the audit program scored 68 (2019: 58). Dedicated follow-up actions to close the non-conformances were carried out for the lower scoring suppliers. After implementing the corrective action plans, the average overall audit score in 2020 was 79 out of 100.

Summary of 2020 audit program (three-year cycle, third-party audit)

	Greater China	Rest of the World	Americas	Europe	Total
Total no. of risk suppliers	180	43	24	1	248
Total no. of audits	60	7	6	0	73
Initial audits	11	5	4	0	20
Continued conformance audits	49	2	2	0	53
Workers employed at sites audited	58,452	10,220	2,940	0	71,612

The supplier sustainability performance rate represents the percentage of risk suppliers that have an audit score of at least 90 out of 100 points. In 2020, we surpassed our target of 90% by achieving a supplier sustainability performance rate of 99% (2019: 99%).

As part of our Brighter Lives, Better World 2025 sustainability program, we will strengthen our program, increasing our supplier sustainability performance rate target to 95% for the next five years.

The table below shows the supplier sustainability performance and indicates the conformance level in the audits before suppliers have taken corrective actions. Three suppliers showed an outstanding performance during the third-party audit, without any non-conformances found. For the past two years, the categories 'Occupational safety' and 'Emergency preparedness' have improved their scoring reaching respectively in 2020 a 60-80% and a 40-60% compliance rate. Both 'Occupational injury and illness' and 'Food sanitation and housing' categories have increased from 60-80% in 2019 to 80-100% in 2020.

Summary of 2020 audit findings before suppliers have taken corrective actions, supplier compliance rate per category of SSD including top-10 non-conformances coverage of the Supplier Sustainability Declaration

Labor	Health & Safety	Environment	Ethics	General
Freely chosen employment 60-80%	**Occupational safety 60-80%**	Environmental permits and reporting 60-80%	Business integrity 80-100%	RBA code 80-100%
Child labor prohibition/ Young worker management 80-100%	**Emergency preparedness 40-60%**	Pollution prevention and resource reduction 80-100%	No improper advantage 80-100%	
Working hours 40-60%	**Occupational injury and illness 80-100%**	Hazardous substances 60-80%	Disclosure of information 80-100%	
Wages and benefits 60-80%	Industrial hygiene 60-80%	Solid waste 80-100%	Protection of intellectual property 80-100%	
Human treatment 80-100%	Physically demanding work 80-100%	Air emissions 80-100%	Fair business, advertising and competition 80-100%	
Non-discrimination 80-100%	Machine safeguarding 80-100%	Product content restrictions 80-100%	Protection of identity 80-100%	
Freedom of association 80-100%	**Food sanitation and housing 80-100%**	Water management 80-100%	Responsible sourcing of minerals 80-100%	
	Health and Safety information communication 80-100%	**Energy consumption and greenhouse gas emission 40-60%**	Privacy 80-100%	
			Non-retaliation 80-100%	

In addition to the audits with current risk suppliers, we audited 35 potential suppliers as part of the supplier qualification process. For potential suppliers to continue the qualification process, they should not have any zero-tolerance issues and score a minimum of 70 points. Additionally, non-conformances need to be closed before completing the qualification process.

Since 2016, we have performed an annual verification for the highest risk suppliers. Depending on the risk category this can either be an on-site audit or a self-assessment questionnaire. In 2020, we performed 3 onsite annual verification audits and validated 41 self-assessment questionnaires (2019: 5 onsite annual verifications and 42 self-assessment questionnaires). The average initial score in these annual verification audits was 73 and the average score of the self-assessments was 94. Due to COVID-19 we had to perform 5 remote audits and postpone 13 audits to the beginning of 2021.

Supplier training and developments

Since 2017, we have put in place on-site trainings for our suppliers. These trainings are tailored towards the non-conformances that were found during the audit. By doing so, we train supplier staff on the topics that are most important for them to improve on. In 2020, we performed on-site trainings at 75 supplier sites, with a total of 523 attendees.

We also organize training sessions on the RBA Code of Conduct and SSD. To address critical and emerging issues, we provide in-depth capability building programs for our suppliers on specific topics. In 2020, we focused these extra trainings on carbon emissions and reduction activities, related to the CDP Supply Chain program and initiated a new Science Based Targets (SBT) program with two of our Chinese suppliers. This program includes regular in-depth training together with CDP experts to help our suppliers to implement SBTs, driving greenhouse gases (GHG) emission reduction in our supply chain. We expect our suppliers to submit their first SBTs in 2021.

In 2020, we organized 5 training sessions which were attended by 202 suppliers, with a total of 320 attendees.

Reducing water and air pollution levels in China

To reduce the environmental pollution in China, Signify worked with the Chinese Institute of Public & Environmental Affairs (IPE), leveraging their work to engage with our suppliers. For instance, to help suppliers better understand environmental issues, we organized two IPE training sessions in July and December 2020 as a part of our overall RBA training program.
Periodically, IPE publishes a list of Chinese factories associated with concerning environmental pollution levels. Signify engages with any suppliers on the IPE list to resolve environmental non-conformances. From 2015 to the end of 2020, there were 51 direct suppliers flagged on the IPE's list, which was reduced to 9 by year-end 2020, and 42 suppliers have taken action to remediate and their violation records were removed from the IPE website. Signify also requested direct suppliers to engage their own direct suppliers that appear on the IPE's list to resolve non-conformances.

Responsible mineral sourcing

Our commitment to sustainable development extends to issues further down in the supply chain, to prevent human rights abuses and financing of conflicts in the extractive sector. Global supply chains in the lighting industry are long and complex, typically with more than seven tiers between the finished product and the source of raw materials used for manufacturing. However, we believe that through strong multi-stakeholder partnerships we can make a difference.

As part of the Signify Conflict Minerals program, we implement measures in our supply chain to ensure that our products are not directly or indirectly funding atrocities in the Democratic Republic of Congo (DRC). We support and follow the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The full description of our due diligence process and Signify's position on Conflict Minerals are available on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/conflict-minerals.

We are an active member of the Responsible Mineral Initiative (RMI) which runs the audit program to verify the smelters' conflict-free status. We use the tools and programs developed by the RMI, especially the Conflict Minerals Reporting Template (CMRT) and the Responsible Minerals Assurance Process (RMAP). Each year, we invite our main suppliers, based on purchasing spend and metal usage, to fill in the latest version of the CMRT. We carefully review the information received via the CMRT from each supplier against our requirements. After identifying the smelters in our supply chain, we publish our Signify Conflict Minerals Declaration, including our smelter list on the company website (see link above). Each year, we update the Signify smelter list with new information received from our suppliers.

Anticipating the European Union (EU) Conflict Minerals legislation coming into force in January 2021, we have reviewed our process and we already comply with the upcoming requirements. Signify 's imports of Tungsten into the EU are fully supplied by conforming smelters.

In 2020 we invited 143 priority suppliers to fill in the CMRT, among which 32% were new suppliers. These suppliers represent over 80% of the total Signify spend in scope for this program. We approved 92% of the CMRTs against the Signify requirements. From the suppliers whose Conflict Minerals Reporting Templates were approved, we identified 244 smelters in our supply chain.

Results of the RCOI (Reasonable Country of Origin Inquiry)

	Gold	Tantalum	Tin	Tungsten	Total
Smelters known to source from the covered countries (CC)	2	26	8	10	46
Smelters known to source from conflict affected or high risk areas (CAHRA)	3	26	8	10	47
Smelters known to process only recycled or scrap materials	32	26	24	22	104
Smelters known to source from outside the CC/ CAHRA's	104	12	44	33	193

Since 2016, we are a member of the European Partnership for Responsible Minerals (EPRM), a public-private partnership initiative. The EPRM provides a platform for cooperation between European governments, companies and civil society to address the issues occurring in the mining of minerals and to enable responsible sourcing from high risk and conflict regions.

In 2020, we applied the same approach for cobalt and we invited 5 priority suppliers to fill in the Cobalt Reporting Table (CRT).

In total, 5 cobalt smelters in our supply chain were covered in Signify's CRT. More can be found on our website https://www.signify.com/global/contact/suppliers/sustainability/our-programs/responsible-minerals.

The results of the Reasonable Country of Origin Inquiry (RCOI) for conflict minerals can be found in the table above.
The information for the RCOI is provided by RMI.

To ensure Signify does not indirectly contribute to human rights abuses in cobalt, lithium and mica mining, we have carried out an investigation to understand which of our suppliers were using these minerals.
It resulted in the identification of 8 direct suppliers that provide components or parts which contain mica, 9 suppliers for cobalt, 13 for lithium and 13 suppliers for graphite.

Cobalt is present in our battery supply chain for emergency lighting and remote controls, making up less than 1% of our bill of material spend. Despite this, we have prioritized this topic and engaged on responsible sourcing standards. Since 2018, we have been part of the Fair Cobalt Alliance with Fairphone, Huayou and Impact Facility. The Alliance aims to improve health and safety, to provide fairer income, support communities in artisanal small-scale mines (ASM) and contribute to the development of a transparent battery supply chain. In 2019, we developed a strategic plan with our partners, which is currently being deployed. This year, we launched an exclusive partnership with the Signify Foundation to amplify the impacts of the Fair Cobalt Alliance and to support communities in the area of the Artisanal Mines in Kasulu and Kamilombe, from where we source cobalt. We will light up market places, schools and a stadium – impacting schools attendance by children and improving safety in the area.

16.3.3 Safety at work

Health & Safety performance

The health and safety of our employees is a top priority. We commit to provide a safe working environment for our employees and we contribute to the achievement of the SDG 8: Decent work and economic growth,

The total recordable case (TRC) rate is the central lagging indicator through which we measure our overall safety performance. Targets for this indicator are set and managed at a company-wide level, and for the individual divisions and manufacturing sites. In our Brighter Lives, Better World sustainability program, we set an overall company target of 0.35 for 2020.
We achieved this ambitious target through continuous improvement cycles, followed up with daily management reviews and regular operational reviews. At the end of 2020, our TRC rate was 0.22 and we are happy to report 0 fatality incidents.

We continued to focus on equipment safety, warehousing safety, behavioral safety, on-site contractors' safety and managing progress for leading indicators related to first aid cases, near-misses, unsafe conditions and at-risk behaviors.

This year, with the COVID-19 outbreak, we prioritized the implementation of dedicated preventive measures at all our locations in the first quarter of 2020. Activities included the introduction of COVID-19 observations at industrial sites, leader standard work for safety deployment and the "Stop the spread" campaign with the objective to increase employee engagement and quality of injury prevention actions.

We recorded 52 TRC cases in 2020 (82 TRC cases in 2019). The TRC rate decreased to 0.22 per 100 FTEs, compared to 0.32 in 2019. This is a 31% improvement compared to last year and meets our 2020 target on safety.

44% of our industrial units had no recordable injuries in 2020. There are 6 industrial sites that have had no recordable injuries over the last 3 years - Varginha, Pila Home, Riyadh - NLC, New Oxford, Warehouse Monterrey, Maarheeze, while 62 sites had achieved more than 500 days injury-free.

Recordable cases

	2018	2019	2020
Total recordable case rate	0.29	0.32	0.22
Lost workday cases rate	0.18	0.19	0.17
Fatalities	1	1	0

Our injury prevention framework was launched in 2015 and has continued its integration into the operational Lean framework and office Lean framework. All our industrial sites have now adopted the key elements of this framework. Efforts continued to further reduce injury and illness rates by focusing on daily standards to prevent injuries. We increased our injury prevention requirements in the upgrades of Signify's Lean program.

As part of our new Brighter Lives, Better World 2025 program, we will continue to strengthen our programs to maintain a safe and healthy workplace. We set an even more ambitious TRC target of 0.30 in 2025, with the ambition for all individual sites to reach it.

Management system

In 2020, Signify updated the multisite management system according to the OHSAS 18001 standard to the new ISO 45001 standard. Part of our manufacturing sites continued to be certified locally according to the OHSAS 18001. At the end of 2020, 72% of our reporting manufacturing sites were certified to OHSAS 18001 or ISO 45001. The remaining manufacturing sites have procedures in place which assure compliance with local regulations and Signify policies.

Health and wellbeing initiatives

Apart from our commitment to provide an injury-free workplace, we support our employees with their health and wellbeing. Through diverse initiatives managed by our country offices, our staff are enabled to proactively work on their vitality and personal health. Examples of initiatives which support active health management include:

- periodic health-checks
- discounts to health and sports centers
- Signify Work-out program
- Physical and ergonomic training

In addition, several of our office spaces are using lighting technologies which enable lumen outputs to follow the human circadian rhythm, enabling our employees to see, feel and function better.

To stop the spread of COVID-19, and as a pilot, we installed UV-C luminaires in Signify's office in Amsterdam to help disinfect the office air, leading to a better and safer work environment for Signify employees.

16.3.4 Acting with integrity

Signify's Integrity Code

The Integrity Code serves as our code of conduct. This code embodies our commitment to always act with integrity, both in our internal and external interactions. The code sets the standard for business conduct of our employees and for the company itself and also gives more information on how to speak up or raise concerns. Translations of our Integrity Code are available in 26 languages.

For a description of Integrity Code processes and policies, please refer to section 12.1 Establishing strong risk management environment, of this Annual Report.

In 2020, we launched a company-wide Speak up campaign. This campaign was launched to raise awareness of the importance to speak up when employees encounter integrity concerns. Employees were requested to complete a mandatory e-learning, and by the end of 2020 the completion rate was 93% of the targeted employees.

In 2020, 178 Integrity Code concerns were captured via the Signify Ethics line and through our network of compliance officers, a 10% decrease on 2019. The Speak up campaign clearly resulted in increased integrity awareness among our employees, which led to a higher number of concerns raised. Our analysis however seems to indicate the increase was more than counterbalanced by the impact of the COVID-19 pandemic. Details per category are shown in the table on next the page.

Most commonly reported concerns

Treatment of employees

The category Treatment of employees represents 48% of the total cases reported (58% in 2019). Within this category, the largest subcategory is Equal, fair & respectful treatment. This made up to 70% of the concerns related to Treatment of employees in 2020 (78% in 2019). This category, for example, relates to concerns about verbal abuse, (sexual) harassment, favoritism and matters of discrimination in the workplace. We believe the decrease may be partly due to a substantial increase in the number of employees who worked from home or remotely in 2020.

Business integrity

The second most reported type of concern relates to Business integrity. The number of complaints reported in this segment represents 33% of the total cases reported (34% in 2019).

In 2020, we saw a notable increase in reported cases relating to Security, including IT. This category represents 13% of the total cases reported in 2020 (5% in 2019) and relates, for instance, to concerns about unauthorized use of the company's assets, theft, cyber security or other IT related concerns. A number of reports were filed relating to the same issue. The increase can also be attributed to the general view that the COVID-19 pandemic triggered a general increase in cybercrime. Signify implemented new tools to prevent and react on cybercrime, for example by detecting unwanted activities in our network.

Substantiated concerns

Of the 178 cases reported in 2020, 44 were open as of December 31, 2020. Of the 134 reports which were closed in 2020, 68 were found to be substantiated, which represents 51% of the closed cases.

Breakdown of alleged violations Integrity code

	2018	2019	2020
Health & Safety	4	–	2
Treatment of employees	90	114	86
• Equal, fair and respectful treatment	66	89	60
• Employee development	1	1	4
• Employee privacy	–	–	–
• Employee relations	8	1	2
• Remuneration	1	2	5
• Right to organize/Collective bargaining	–	1	–
• Working hours	3	1	2
• HR other	11	19	13
Legal	3	4	7
Business integrity	69	66	59
Security, including IT	11	9	24
Other	9	4	–
Total	**186**	**197**	**178**

Responsible tax policy

Our tax principles are based on the recognition that tax is an integral element of our overall corporate social responsibility as well as commitment to the United Nations Sustainable Developments Goals. The UN and other global organizations have emphasized the importance of fair contributions and are asking for more transparency on tax. Responsible Tax Policy is an important topic for Signify to report upon.

For us, acting with integrity means paying the right amount of tax, in the right place, at the right time. Being a responsible taxpayer is aligned with our purpose, business strategy and Integrity Code. Our Tax Principles set the standard for our conduct, by which individual employees, the company and its subsidiaries must abide. The tax principles ensure compliance with local and international tax laws and internationally accepted standards of good corporate governance such as various OECD Guidelines. We are committed to providing timely, regular, and reliable information on Signify's tax position, including the Group effective tax rate, our corporate income tax contributions, and our main tax exposures (see note 9, Income taxes, of this Annual Report).

Signify has a Tax Control Framework in place, which provides awareness and assurance of adherence to up-to-date tax policies. Our Board of Management approves our tax strategy and reviews the tax control framework and our key tax positions. External auditors regularly review our tax controls and our key tax positions as part of the audit of our financial results. The responsibility for tax management ultimately rests at the executive Board of Management with the CFO.

More information can be found in our Global Tax Principles: https://www.assets.signify.com/is/content/PhilipsLighting/Assets/signify/global/ir/signify-tax-principles.pdf.

Cybersecurity

Digitalization is one of our strategic frontiers and our connected lighting offer is expanding. We are focusing on improving our digital front and back-ends and increasing our data analytics capabilities to better serve our customers. In this context, it has been more important than ever to ensure that access to network, IT systems and data is assured at all times.

Signify has a dedicated corporate security department which provides guidance and assurance as well as implements our three lines of defense governance model which focuses on information, product and operational security. We created a process for developing secure (new) products and services, as well as a remediation process in case vulnerabilities are identified. Second, a security operation reporting center is responsible for detection, mitigation and resolution of cybersecurity related incidents, enabling action to be taken in a timely manner. Technical security measures are implemented to support the "defense in depth" principle, starting from the collection of information to infrastructure controls.

Additionally, our employees are asked to complete a mandatory training on security. Our cybersecurity requirements also apply to our partners and suppliers as part of security schedules and contracts signed as they need to comply with the same standards we set for ourselves.
Our cybersecurity processes and measures are based on ISO 27001 (Information security) and ISO 62443 (Product Security) certifications, as well as other related best practices (such as the National Institute of Standards and technology and the Center of Internet Security).

All cybersecurity activities are reported to and monitored by the Security Board, chaired by our Chief Executive Officer, Eric Rondolat. Other members of the board are the Chief Financial Officer, the Chief Security Officer, the Heads of Internal Audit, Legal and Human Resources. The Board of Management and the Supervisory Board are informed regularly.

Product quality

Signify has a strong commitment to responsible product stewardship.
The Signify quality management system is ISO 9001:2015 certified, covering all business activities. When it comes to quality, we believe prevention of defects is better than cure. This is reflected in our structured approach towards the selection and qualification of suppliers, manufacturing, installation and delivery of our products and services. In line with mandatory legislation throughout the world, Signify is committed to place only safe products on the market. In the event products have been brought to market that do not meet the essential safety requirements, Signify takes a systematic approach and appropriate actions, which may include a product recall, especially in case the health and safety of individuals are of concern. Signify has a robust process in place to ensure impacted constituents are informed. In 2020, no product safety issues were found that resulted in a material fine or penalty.

16.3.5 Social impact of light

We are driving change to create brighter futures. Through our technology, social and business life no longer stops when the sun goes down. Light enables recreation, productivity and economic growth.

Human-Centric lighting

Light allows us to see and to experience the world around us. Additionally, it affects us visually, biologically and emotionally, supporting comfort, wellbeing and performance. Scientific evidence shows that light has a powerful impact on our emotions and important physiological and biological processes in our body. Circadian lighting in an office environment for instance makes an office more livable and up to 12% more productive.

In 2020, we extended our Human-Centric lighting portfolio helping people to see, feel, and function better and continued to contribute to the achievement of the SDG 3: Good health and wellbeing. We launched NatureConnect – Lighting inspired by Nature. NatureConnect brings the benefits of natural light Indoors with constant cycles and variations of nature to create healthy, engaging and attractive environments. NatureConnect enhances wellbeing, boosts performance and creates an inspiring environment.

The COVID-19 pandemic triggered an extension of our portfolio to new innovative solutions based on our UV-C offering.
The quality of the air we breathe and the cleanliness of the surfaces we touch have a profound effect on our health and wellbeing. The risk of contracting and spreading viruses and bacteria increases in busy and public areas like the office, stores, schools, museums and public transports. A proven and effective way to neutralize a virus is through UV-C radiation. In laboratory testing, our UV-C light sources inactivated 99% of the coronavirus 2 on a surface with an exposure time of 6 seconds.

Food availability and quality

The challenges we face will require more efficient food production to support an additional two billion people by 2050.
The current livestock feed production uses almost 50% of total global agricultural land, and agriculture consumes about 70% of the world's water supply. Globally,
food production and distribution contribute significantly to the increase in global GHG emissions.

In 2020, Signify continued the development of agricultural lighting to help growers and farmers globally to produce sustainable and healthy food, increasing yields and quality and improving animal wellbeing.

Our technology applies to horticulture, aquaculture, animal centric lighting and water and air purification. Trough our actions, we increase food availability and quality as directly contribute to the achievement of the SDG 3: Good health and wellbeing.

NatureConnect blue sky

Skanska wants to create a healthy, engaging and inspiring working environment despite the absence of daylight.
The company chose Signify NatureConnect in one of its offices, combining different LED luminaires with intuitive controls to create lighting scenes tailored to people's needs.
NatureConnect provides a view to the sky, brings the colors and dynamic of nature into the workplace and increases employees' productivity and wellbeing.

Access to light

With a global health pandemic raging through the world, the link between lighting and access to modern health care has never been more evident. From adequate lighting in and around primary health care centers to the disinfectant properties of UV-C light, humanitarian relief efforts have been front and center of our focus over 2020.

In its third year of operations, the Signify Foundation remains committed to enabling access to the benefits of sustainable lighting to underserved communities and contribute to the SDG 11: Sustainable cities and communities. To fulfill this mission, we partner with actors across the entire value chain that play a key role in the delivery of clean technology based lighting systems to homes, communal spaces and institutions, empowering communities to be safer, active and economically productive after sunset.

As the Foundation's program has matured, there has been a conscious shift in allocation of resources towards a diversified and differentiated approach where base-of-pyramid social enterprises are enabled to strengthen their capability to serve last-mile communities. We aim to address barriers to growth and sustainability of a robust market where local lighting needs are met by local suppliers. The impact of lighting lives is long lasting through investment rather than aid, through the creation of market ecosystems where lighting can be bought and sold and not provided through charitable interventions only. This strategic evolution is also reflected in the financial support structures. Indeed, recoverable grants or blended facilities of unconditional and recoverable grants are made available to help social enterprises overcome their barriers to growth and scale.

Signify entities around the globe actively contribute to the communities that they operate in by lighting up public service institutions like hospitals, schools and sporting facilities while donating clean technology-based lighting to underserved households.

Through projects supported by the combined resources of the corporate social responsibility and Signify Foundation, we have outperformed our target and lit 6 million lives in communities around the globe (target 5 million lives, baseline 2017). In addition, we have supported 9,266 people with technical and business skills development (target 10,000 people, baseline 2017). A number of training activities have been postponed due to COVID-19 restrictions in countries of operation.

The shift in focus on light for health care as a response to the COVID-19 pandemic this year has prompted a review of our impact calculation framework to expand its scope to not just “access to light”, but to the “benefits of sustainable lighting” provided. Our long-term intent is to move towards reporting of social, environmental, and socio-economic impact of the lighting - mainly in terms of safety & security, job creation, income generation, gender equality, education & health.

Further, in virgin areas where a standard calculation methodology could benefit the sector at large, for instance solar outdoor lighting, we aim to gather data along our projects in diverse geographies and trigger the process of creating industry standards for calculating and reporting output, outcomes and the impact of lighting.

This year, we have also launched a knowledge portal to enable open source access to insights and technical knowledge that would provide strategic support to help other actors aligned with the mission to enable universal access to energy and lighting. Reports launched this year were guidelines to solar lighting for refugee camps, impact of subsidies on uptake of solar products by lower income group populations and market landscape analysis for the solar lighting sectors in 5 countries in Africa.

Looking forward, we are setting ourselves the target of lighting 10 million lives by the end of 2025.

16.3.6 Working with stakeholders

In the further development of our Brighter Lives, Better World program and commitments to the relevant UN SDGs, Signify has again stepped up its work with strategic partners and stakeholders.

In 2020, our first major stakeholder event was the World Economic Forum (WEF) in Davos. There, we joined a number of sessions related to sustainable development, circular economy and climate change and received broad recognition for our leadership in these areas.
We participated in the CEO Climate Leadership Alliance, where we urged for enhanced climate action in the important decade we have embarked upon. Shortly after this event, the COVID-19 pandemic led to the cancellation of several international events including the postponement of COP26 in Glasgow to 2021.

Nevertheless, in 2020, we had a strong online stakeholder program with virtual meetings and events which contributed to some important outcomes and achievements. With the WEF, we participated in a number of workstreams on the topics of economic recovery and enhanced climate action. Throughout the year, we were deeply involved in the advocacy that followed on the announcement of the European Green Deal in November 2019. As a consequence of the economic recession of the first quarter, we reached out to the European institutions with a number of other companies and industries through the European Alliance, the Corporate Leadership Group (CLG) Europe and EuroAce. This advocacy work contributed to the definition of the Next Generation Europe recovery program five focal areas, with the ultimate goal of regional climate neutrality by 2050. Through the CLG Europe, a call to action was prepared and signed by over 180 CEOs and other leaders to increase the 2030 GHG reduction target to at least 55% of carbon emissions. This call was referenced by European Commission's Ursula von der Leyen in her first State of the Union on September 16th.

As in previous years, we joined several events during the 2020 (virtual) Climate Week NYC, where Eric Rondolat announced Signify's carbon neutrality achievement in a special event with EU Commission's First Vice-President Frans Timmermans. During other events held by the World Green Building Council and the US-based Business Council for Sustainable Energy and Alliance to Save Energy, we built on the "Three Percent Club" partnership and advocated the need to, at least, double infrastructure renovation rates to 3% per year as a critical enabler of the global pathway to climate neutrality. The 3% goal has now been included as the first focus area – the Renovation Wave – in the European economic recovery program.

The relevance of a green and digital economic recovery is being shared with stakeholder organizations in all other regions so that these focal areas get adopted more broadly and a sustainable recovery will gradually transform in a 'race to the future' with global climate neutrality latest by 2050 as the common goal.

16.4 Better World

In 2016, we set ambitious targets to minimize the environmental impact of our activities for a better world. As we continuously strive for excellence in environmental management, we develop and implement programs and report on our progress. As a result, we celebrated 100% carbon neutrality in our operations and the use of 100% renewable electricity in September 2020, ahead of our targets.

In 2020, we continued our efforts to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and we launched an internal working group to further analyze our climate risk mitigation and adaptation strategy. We made significant progress towards our Science-Based Targets, as reported below in the carbon footprint and energy section.

In our next five-year program, we commit to go beyond carbon neutrality and to double the pace of the Paris Agreement 1.5°C scenario, focusing on emission reductions in our entire value chain.

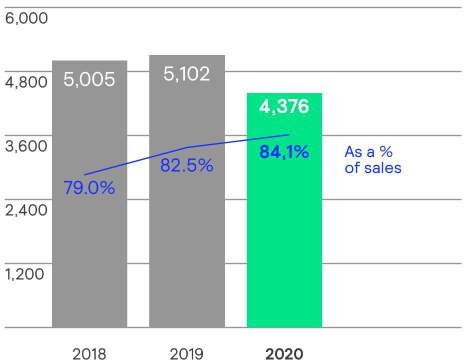
All our environmental policies and management framework are based on the international ISO 14001 standard. In 2020, 82% of our manufacturing sites were certified to ISO 14001.

16.4.1 Energy efficiency of our products, systems and services

Lighting makes up 13% of global electricity consumption and 5% of global greenhouse gas emissions. Phasing out energy inefficient conventional lighting and switching to energy-efficient LEDs and solar lighting still has significant environmental benefits. That is why energy efficiency is a vital aspect of our innovation process.
In 2016, we have set the ambitious target to have 80% of our revenues coming from sustainable products, systems and services by the end of 2020. By delivering cleaner solutions, we are proud to contribute to the achievement of the SDG 7: Affordable and clean energy.

Sustainable revenues are measured as a percentage of total revenues per product family and tracked for each Division. Sustainable revenues are defined as products with an energy efficiency of 66 lm/W and higher as well as all systems and services, as these provide additional energy savings. Energy is selected as the key criterion, as this sustainable focal area consistently has the highest environmental impact, as shown through life-cycle assessments. In 2020, Sustainable revenues grew to an all-time high of 84.1%.

Sustainable revenues in millions of EUR



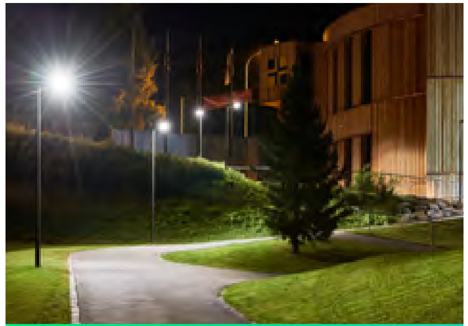
Two billion LED lamps & luminaires

Through our digital LED technology, Signify offers light that is up to 80% more energy efficient, compared with conventional technologies, which are still commonly used. For this reason, we have pledged to deliver two billion LED lamps & luminaires by the end of 2020 (baseline 2015). When combined with digitally connected systems, we can save energy equivalent to that generated by 58 medium-sized coal-fired power stations (equivalent to emissions from 21 million cars).

At the end of 2020, Signify delivered 2,923 million LED lamps and luminaires. Considering the environmental impact of avoided carbon emissions, our LED lamps & luminaires delivered thus far have saved 72,988 kilotonnes in CO_2, equal to EUR 7,381 million in societal costs saved.

LED lamps & luminaires delivered in millions of units

	LED delivered
2018	552
2019	596
2020	578
Cumulative from 2015	2,923



Helping realizing the EU Green Deal through LED lighting

The city of Davos is aiming for at least 50% CO_2 reduction by 2030 to achieve the objectives set in the EU Green Deal. Together with ELEKTRON AG, Signify has replaced 50% of the city's streetlights with energy-efficient LEDs connected to the Interact City system to achieve a saving of more than 72,000kWh per year. Additionally, we upgraded almost 900 lights of the Davos' Congress Center, saving 50,000 kWh in energy per year. The city of Davos reduces its carbon emissions by 68.5 tons per year.

16.4.2 Carbon footprint and energy

At Signify, we have a long-term commitment to increase the energy efficiency of our products and reduce energy use in our production processes. We acknowledge the findings of the Intergovernmental Panel on Climate Change (IPCC) and believe we have an important role to play in the transformation towards a low-carbon economy. In September 2020, we became the first lighting company to be carbon neutral in its operations and we shifted to 100% renewable electricity, ahead of our target and ahead of the aspirations set out by the Paris Agreement. Over the last decade, Signify reduced its operational footprint by more than 70% and has been driving hundreds of initiatives to reduce emissions in factories, offices, logistics and business travel. As a manufacturing company we still have unavoidable emissions, like for example from the use of natural gas in glass ovens, so we invest in certified carbon offsetting projects.

Climate Action is a key focus of our new Brighter Lives, Better World 2025 sustainability program and we will continue our contribution to the achievement of the SDG 13: Climate Action. We will go beyond carbon neutrality and double the pace to reach the 1.5°C scenario goal laid out in the Paris Agreement. We will reach the 2031 pathway in 2025, six years early, by increasing the energy efficiency of our portfolio to help our customers reducing emissions and driving carbon reductions at our suppliers.

Climate Action and Leadership

In 2020, Our Brighter Lives, Better World program won the United Nations Climate Neutral Now Award. And, we have been recognized again in CDP's Climate A list for our leadership in environmental performance.

Signify is one of the first 28 companies committing to verified Science-Based Targets in line with the Paris Agreement 1.5°C pathway to cut GHG emissions in our operations as well as in our value chain. We commit to reduce 70% of absolute scope 1 and 2 GHG emissions and 30% of absolute scope 3 GHG emissions by 2030 (baseline 2015).

At the end of 2020, we achieved:

- 55% reduction of absolute scopes 1 and 2 GHG emissions (baseline 2015)
- 42% reduction of absolute scope 3 GHG emissions from use of sold products (baseline 2015).

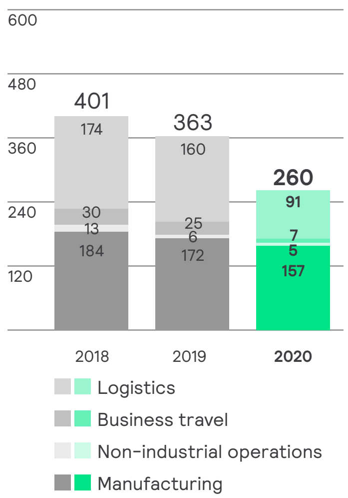
We continue to partner with the Climate Group's EV100 Initiative to operate a lease fleet of hybrid and fully electric vehicles (EVs) by 2030. Additionally, in 2020, Signify joined the AndresReizen Dutch Business Sustainable Mobility Pledge to further improve the sustainability performance of our business travel. Through our partnership with the RE100 Initiative, we shifted to 100% renewable electricity use in 2020. As an active member of Clean Cargo and the WBCSD Transforming Heavy Transport project, we engage in cross-industry collaboration and strive to lower the carbon footprint of our freight transport. Our continuous pledge to the World Green Building Council's Net Zero Carbon Buildings commitment facilitates improvement in energy efficiency as well as reduction in electricity consumption in our non-industrial buildings.

Operational carbon footprint

Through continuous efforts in various departments, we are a fully carbon neutral company. Our operational carbon footprint consists of manufacturing, non-industrial operations, logistics, and business travel.

In 2020, our total CO_2 emissions were 260 kilotonnes, a 28% decrease year-on-year. This decrease can be partly explained by the impact of COVID-19 on our reduction of emissions from logistics and business travel. Our operational CO_2 efficiency in tonnes of CO_2-equivalent per million-euro sales was 50 in 2020, a 14% improvement compared to 2019.

Operational carbon footprint in kilotonnes



To fulfil our carbon neutral commitment, we continue to partner with South Pole for carbon offsetting projects that are aligned with our purpose. Among others, we initiated off-grid renewable energy generation with solar panels in India. We continued to support reforestation and forest conservation in Colombia and Zimbabwe and kept our engagement in increasing the availability of renewable electricity through wind farms in India. Our partnership with South Pole enabled us to offset 100% of our emissions, resulting in a net zero carbon footprint.

Operational carbon footprint in kilotonnes

	2018	2019	2020
Gross	401	363	260
Offset	255	299	260
Net	**146**	**64**	**0**

Signify tailored offset project

In 2020, Signify created its own carbon offsetting project together with South Pole and the Signify Foundation. Over 500.000 people in the Gumla region in India live in off-grid communities, depending on candles and kerosene. Through our tailored project, we connect them to solar mini grids to ensure reliable renewable electricity access and install energy-efficient lighting to brighten their lives after dark.

Manufacturing

We cut our manufacturing carbon footprint by 49% since 2015, the baseline year for our Brighter Lives, Better Word sustainability program. In 2020, manufacturing accounted for 60% of our operational carbon footprint, which has been reduced by 9% compared to 2019. This was achieved mainly due to continuous operational changes and efficiency improvements, for instance optimization of heating systems.

Non-industrial operations

In 2020, CO_2 emissions from non-industrial operations (offices, warehouses) represented 2% of our total carbon footprint. In 2020, our emissions from non-industrial operations decreased by 17% year-on-year, primarily through reaching 100% renewable electricity and energy efficiency improvements.

Logistics

In 2020, 35% of our total CO_2 emissions was attributed to logistics, which decreased by 43% compared to 2019. We focused on implementing strict approval procedures and actively promoting sustainable alternatives. Our air transport emissions went down by 45%. Driven by our commitment to sustainable logistics, we remained engaged in the Clean Cargo buyer-supplier forum. This enabled us to successfully reduce emissions from road freight and ocean freight by 40% and 43%.

Business travel

Over the past years, we implemented our sustainable travel policy and succeeded to reduce our carbon footprint from business travel by 86% since 2015. In 2020, our CO_2 emissions related to business travel accounted for 3% of our operational carbon footprint. We achieved a 71% reduction compared to 2019, as a result of our efforts and the impact of COVID-19 travel restrictions. We lowered emissions from air travel by 82.5% from 16 to 2.8 kilotonnes.

Operational carbon footprint in kilotonnes CO_2-equivalent

	2018	2019	2020
Scope 1	172	168	161
Scope 2 (market based)	25	10	1
Scope 3 business travel	30	25	7
Scope 3 logistics	174	160	91
Of which			
• Air transport	71	73	40
• Road transport	51	40	24
• Ocean transport	52	47	27
Total Signify	**401**	**363**	**260**
Scope 2 (location based)	202	181	160

Energy use in operations

Our total energy usage in 2020 amounted to 3,728 terajoules, 4% lower than the previous year. This decrease was due to operational changes, reduced heating requirements and energy efficiency improvements in our factories. Our operational energy efficiency in terajoules per million-euro sales was 0.72 in 2020 (0.62 in 2019).

Electricity

In 2020, we procured 100% of our electricity from renewable sources. This achievement directly contributes to the SDG 7: Clean and affordable energy. All electricity consumed by our operations worldwide was sourced from renewable sources or matched with Energy Attribute Certificates (EACs). Approximately 16% of our renewable electricity was contracted via our energy providers. 35% was sourced through the procurement of renewable energy certificates, and 49% came from our participation in two Power Purchase Agreements (PPA) in the US and Poland. At the end 2020, we signed a 10-year PPA with a new built wind farm in Finland for our European operations, which is expected to power our European operations with green electricity from 2023 onward. Our PPAs contribute to the transition to more sustainable electricity grids and reinforce our long-term commitment to using renewable electricity.

Enabling carbon reduction in our supply chain

In 2020, we continued to engage our supply chain to reduce its carbon footprint. Our approach is to proactively initiate, develop and support carbon emission reduction activities in the supply chain through our partnership with the CDP Supply Chain program.

In 2020, we invited 711 (404 in 2019) of our strategic suppliers to the program, of which 72% submitted the 2020 CDP questionnaire, which is an increase of almost 70% compared to 2019.

This represents 91% of project related spend, which is higher than 2019 (87% of the spend). In 2020, 296 strategic suppliers reported emission reduction activities, overachieving our target of 200 strategic suppliers annually reporting emission reduction activities. 257 of our strategic suppliers disclosed their annual scope 1 (direct) and 2 (indirect) emissions (target 2020: at least 250 suppliers).

CDP reporters per region and topics reported

	Greater China		Rest of the World		Europe		Americas		Total	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Scope 1	70%	78%	62%	72%	61%	72%	61%	72%	65%	74%
Scope 2	43%	49%	62%	47%	44%	45%	56%	50%	48%	48%
Scope 1 & 2	43%	51%	59%	48%	46%	47%	55%	51%	48%	50%
Have a reduction target	58%	54%	54%	38%	42%	41%	39%	35%	48%	44%
Have on-going reduction activities	65%	70%	54%	47%	51%	55%	44%	46%	55%	57%
Climate change opportunities	70%	54%	65%	55%	63%	60%	53%	54%	64%	56%
Climate change risks	61%	49%	54%	36%	44%	39%	45%	42%	52%	43%
Integrated climate change in business strategy	76%	69%	76%	66%	79%	75%	68%	62%	75%	69%
Integrated climate change in risk management	71%	17%	70%	28%	75%	31%	60%	34%	70%	26%
Total amount of reporters	**105**	**193**	**37**	**64**	**89**	**152**	**62**	**104**	**293**	**513**

In total, our suppliers undertook more than 600 initiatives in 2020 leading to almost 32 million metric tons of CO_2 emissions saved (2019: 55 million metric tons).

16.4.3 Circular economy

Today, humanity uses 1.6 times the resources our planet can sustain. At Signify, we consider the transition to a circular economy as a key enabler in society's pursuit of a more sustainable world.
A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using material resources more effectively. Our actions cover the whole life cycle of a product (from production, use and re-use to waste management) and directly contribute to the achievement of the SDG 12: Responsible consumption and production.

Circular lighting portfolio

In our efforts to transition to a circular economy, we extended our circular lighting portfolio in 2020. Our circular innovations aim at preserving value and avoiding waste and cover four categories: serviceable luminaires, circular components, intelligent systems, and circular services.

- Serviceable luminaires are fixtures that are upgradable, serviceable, connectable, energy-efficient, reusable, and recyclable
- Circular components are exchangeable and have recyclable parts, such as drivers, controls, and LED boards
- Intelligent systems monitor serviceable luminaires and enable preventive maintenance
- Circular services aim to prolong lifetimes and provide customers with end-of-contract options

Circular street lighting

**The new Luma generation fulfills the requirements of a circular economy by not only being energy-efficient in application, serviceable and connected, but also having a long, extendable lifetime and being recyclable.
The gearflex technology helps installer to replace and reprogram drivers in less then 30 seconds. Via the service tag, spare parts and upgradeable components can easily be applied to significantly prolong the product lifetime.**

A great example of our serviceable luminaires is our 3D printed luminaires. These luminaires have been designed in a modular way and can be upgraded to meet the emerging needs of customers. Whether these needs are performance improvements (higher efficacy in lm/W or better light quality), a diverse look and feel (different housing), or a system upgrade, the modular concept facilitates these needs. Instead of replacing the whole luminaire, modules can be exchanged or added, thus preserving value and avoiding waste.

Our circular services allow our customers to pay for the light used, rather than an upfront investment in the materials. Our efforts also address supply chain improvements, such as remote serviceability (connected lighting) and end-of-life services. By minimizing materials waste and reducing the environmental impact, we create an ecosystem that extends the life of our lighting products and provides a better future for the next generation.

Reducing the weight of materials of our products

Via well-established sustainable design rules, Signify continuously lowers the weight of new product designs, resulting in less material use and costs for our product portfolio. The sustainable design rules are also optimized for circularity, resulting in better serviceability while increasing recyclability.

Zero Waste to landfill

Sending zero manufacturing waste to landfill is one of our Brighter Lives, Better World 2020 commitments. This commitment might have been the most difficult to fulfill due to the multitude of sites and waste streams. We had to find innovative solutions to reduce the amount of waste sent to landfill to zero, and to drive continuous improvements and process optimization across the globe. Thanks to our efforts, at the end of 2020, 100% of our manufacturing sites put an end to sending waste to landfill, as defined by our commitment.

To achieve this milestone, we focused our efforts in 2020 on shifting to vendors with more sustainable and eco-friendly ways of processing our waste. We continued to improve our practices regarding waste segregation, waste awareness trainings and sharing best practices across other regions.

In 2020, Signify registered 1.58 kilotonnes of hazardous waste, of which 39% was recycled. We set the target to yearly reduce our hazardous waste by 5%. Our recycling programs address waste arising from manufacturing activities, such as glass or canteen waste, as well as from suppliers, such as packaging materials.

91% of total waste was recycled in 2020 and we continue to recycle 100% of our metal and glass waste. The focus given to increase the waste recycling rate, by waste segregation at source and optimization of waste processed, has also enabled our sites to identify new opportunities for reducing their overall amount of waste.

Total manufacturing waste consists of waste that is delivered for recycling, incineration or landfill.

Manufacturing waste in kilotonnes

	2018	2019	2020
Recycled	33.3 (82%)	32.7 (90%)	30 (91%)
Incinerated	3.0 (7%)	2.2 (6%)	1.9 (6%)
Landfilled	4.5 (11%)	1.5 (4%)	0.9 (3%)
In scope of commitment	2.4 (6%)	0.7 (2%)	0 (0%)
Total waste	**40.8**	**36.4**	**32.8**

Recycling rate per waste category

	2018	2019	2020
Canteen waste	32%	58%	43%
Chemical waste	22%	29%	29%
Electrical and Electronic waste	97%	90%	99%
Glass (line rejects)	100%	100%	100%
Metal scrap	100%	100%	100%
Paper/cardboard	99%	99%	99%
Plastic waste	86%	84%	79%

We actively aim to reduce other categories of waste that are excluded from this commitment, such as chemical or hazardous waste, which are mandatory to landfill under legislative regulation or when waste collection and/or treatment is regulated. For more details on our commitment scope, please refer to our Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

16.4.4 Responsible packaging

Signify pursues a reduction of the environmental impact of its packaging by shifting to responsible materials.
Our packaging policy encourages packaging designers, the purchasing community and suppliers to minimize the environmental impact of packaging materials in all phases of the life cycle. This means reducing the amount of packaging used, selecting packaging materials with a high recycled content, and/or selecting virgin packaging materials with a minimal environmental impact from responsible sources.

Our packaging policy requires for the use of 80% recycled paper.

In 2020, Signify was using over 2,500 tonnes of plastic in its consumer product packaging. These plastics largely end up in landfill, waste incineration or potentially leaks into our environment. To address this environmental concern, Signify announced in June 2020 its commitment to eliminate plastic packaging in its consumer product packaging by the end of 2021.
The elimination of plastic packaging will equal to 125 million PET bottles which, placed in a row, would stretch more than 8,000 kilometers (5,000 miles). On top of that, our new packaging is smaller, reducing carbon emissions from transport and the materials we use by 6,000 tonnes per year – equivalent to the amount of CO_2 that 270,000 fully grown trees can absorb in a year.

Replacing plastic packaging with paper-based alternatives will be sequenced across our product portfolio and different regions. In the second half of 2020, all new LED lamps packaging in Europe shifted from blister to paper box.

16.4.5 Hazardous substances

Product substances

Through sustainable design rules, all new product developments meet stringent sustainability criteria before their market launch. All our products and systems delivered to countries requiring the CE marking are compliant with the RoHS Directive (2011/65/ EU) and REACH (EC 1907/2006) regulations. We require all our suppliers to communicate all substances in their components and to comply with the stipulations that we have listed in our Regulated Substance List (RSL), which in many cases goes beyond legislation. In 2020, we continued to engage with our suppliers, further rolling out the publicly available BOMcheck tool, in which components and substances can be registered.

Chemical substances in production processes

We prioritize the safe management of chemicals to ensure that we minimize the risks of the use of these substances related to the environment, society and our employees in their daily work. If there are threats of harm to human safety or the environment, we proactively search for effective alternatives. We have a robust approach to identify and manage regulated and hazardous substances in our production processes.

We ensure compliance through continuous monitoring of chemicals usage in manufacturing sites. Over the last 10 years, we have been actively phasing out several hazardous substances.

Emissions from mercury and mercury compounds totaled 0.01 kilogram in 2020. The target to achieve emissions As Low As Reasonably Achievable (ALARA) was met already in 2015. Signify continues to closely monitor usage, emissions and exposure, to determine if further improvement opportunities are possible.

Emissions from mercury

Since 2012, we have been able to drastically decrease the emissions from mercury by changing our production processes and replacing liquid mercury with solid-state mercury.

Emissions from mercury in kilograms

	2018	2019	2020
Mercury and mercury compounds	4.1	1.2	0.01

Emissions from volatile organic compounds (VOCs) in lacquering processes

For years, Signify has been focusing on improving its operations relating to the coating of products to reduce the use of targeted VOCs. In 2020, we continued the shift from chemical painting to water-based paint. As a result, emissions of toluene decreased by 43%. Due to the progressive replacement of coil ballasts with electronic ballasts and the closure of production lines in 2020, our styrene emission was reduced to 0.

Emissions of VOCs in lacquering processes in tonnes

	2018	2019	2020
Lead and lead compounds	1	1	0
Styrene	653	233	0
Toluene	65	65 [1]	37
Xylene	744	728	767
Emissions from category 2 substances	**1,463**	**1,027**	**804**

[1] 2019 emissions of toluene have been restated to due an error in reporting from one site.

16.4.6 Water

Signify recognizes the growing importance of water usage in our everyday activities. As we continue to expand our portfolio of LED products, systems, and services, the water intensity of our operations continues to decrease. Despite this, some of our manufacturing facilities are located in areas with water stress, such as Saudi Arabia, Mexico and parts of the United States, and may face water scarcity risks. To analyze and quantify our exposure to water risk, we utilized the open source Water Risk Monetizer tool by Ecolab, Trucost, and Microsoft. The results show that 40% of our global water consumption is located in regions classified as having extremely high- or high-water scarcity.

While some of our facilities have reuse and recycling measures in place, we continued to implement and identify new and more efficient water saving measures as well as continuing our transition to technology and business models which have a lower dependency on water. We aim to reduce our water usage by 5% annually.

Total water intake in 2020 was 971,000 m^3, 3% higher compared to 944,000 m^3 in 2019. This increase was mainly due to new installations requiring more water and increased production volumes in sites where water is used for cooling purposes.

49% of our sites state that water is primarily used for domestic purposes.

Water intake in thousands of m^3

	2018	2019	2020
Total water	1,266	944	971

Based on our methodology for calculating societal impact, we caused EUR 3.7 million in costs to society through our water usage.

16.4.7 Biodiversity

Poor quality lighting can increase light pollution and sky glow and as a consequence can negatively impact biodiversity. To ensure that animals, such as bats, are not disturbed by artificial lighting during night-time activities, Signify designed a new light spectrum. The new light recipe helps in maintaining a balanced ecosystem by displaying minimal attraction for insects, enabling bats to behave the same way as if it was full darkness and preventing lit roads to act as borders or obstacles to be crossed at night.

Additionally, through our carbon offsetting projects and partnership with South Pole, we contribute to conserving and restoring forests, safeguarding biodiversity in different regions of the world. For example, our project in Zimbabwe ensures that 785,000 hectares of forest and wildlife on the southern shores of Zimbabwe's Lake Kariba are now being protected.
Our reforestation project in Colombia restored 14,484 hectares of forest. Based on our methodology for calculating societal impact, we created EUR 45 million for society through conserving and restoring forest in 2020.

16.4.8 Environmental incidents

In 2020, Signify experienced no significant environmental incidents.

17 Combined independent auditor's report

On the 2020 financial statements and sustainability information

To: the general meeting of shareholders and Supervisory Board of Signify N.V.

Our Opinions

We have audited the 2020 financial statements of Signify N.V. (hereafter: the Company) based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Signify N.V. as at December 31, 2020 and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of Signify N.V. as at December 31, 2020 and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code

We have audited the sustainability information in the annual report for the year 2020 of Signify N.V. based in Eindhoven, the Netherlands (hereafter: the annual report). The scope is described in the section Our Scope. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the sustainability information presents, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to sustainability
- The thereto related events and achievements for the year 2020

in accordance with the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in section 16.1 Approach to sustainability reporting of the annual report 2020 of Signify N.V.

Based on the following procedures performed according to the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 and Section 2:135b of the Dutch Civil Code

Basis for our Opinions

We performed our audit on the financial statements and the sustainability information in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N “Assurance engagements relating to sustainability reports”, which is a specified Dutch Standard that is based on the International

Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". Our responsibilities under those standards are further described in the section Our responsibilities in this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our independence

We are independent of Signify N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)".

Our scope

Our engagements scope

The consolidated financial statements comprise:

- The consolidated statement of financial position as at December 31, 2020
- The following statements for 2020: the consolidated statements of income, comprehensive income, cash flows and changes in equity
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The statement of financial position as at December 31, 2020
- The statements of income and changes in equity for 2020
- The notes comprising a summary of the significant accounting policies and other explanatory information

The sustainability information is included in chapter 3 Brighter Lives, Better World program and Value Creation Model, section 4.2 Sustainability performance and chapter 16 Sustainability statements of the annual report.

The other information comprises:

- The report of the Board of Management
- The remuneration report
- Other information required by Part 9 of Book 2 of the Dutch Civil Code
- Sustainability statements
- Corporate Governance report

Limitations to the scope of our audit engagement comprising the sustainability information

The sustainability information includes prospective information, such as goals, strategy, plans, forecasts, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

The references to external sources or websites in the sustainability information, with the exception of the Methodology for calculating societal impact and the Supplement to the 2020 sustainability statements (supplement 1 and 2), are not part of the sustainability information as audited by us. We therefore do not provide assurance on this information.

Our audit approach

Our understanding of the business

Signify N.V. is a global provider of lighting solutions. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment. We started by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

During our audit we were forced to perform our procedures to a greater extent remotely due to the COVID-19 measures. This limited our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical contact and direct observation, we performed alternative procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

We addressed the impact of COVID-19 on revenue, goodwill and tax reporting in the respective separate Key Audit Matters respectively.

Materiality

General

The scope of our assurance procedures is influenced by the application of materiality. Our assurance engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements may arise due to fraud or errors. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the (economic) decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our opinions.

Financial statements

For the audit of the financial statements our considerations regarding materiality are as follows:

Materiality	€ 26 million (2019: € 25 million)
Benchmark used	5% of adjusted profit before taxes
Additional explanation	Based on our professional judgment we consider earnings-based measures as the most appropriate basis to determine materiality. Adjustments are made to profit before taxes for elements which are not directly related to the operational performance of the company as disclosed in chapter 18 of the annual report.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We have agreed with the Supervisory Board that misstatements in excess of €1.2 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgment we determined specific materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organization.

We have agreed with the Supervisory Board that misstatements which are identified during the audit and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Our scope for the group audit of the financial statements

Signify N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Signify N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

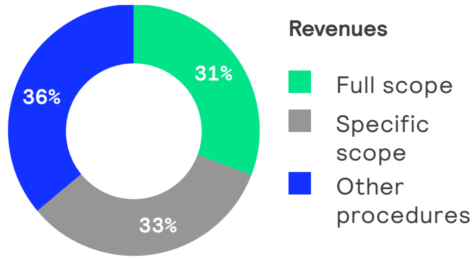
Due to the COVID-19 pandemic the direction, supervision and performance of the group audit engagement were performed remotely. The review of audit work papers of component teams was facilitated by having remote access to component teams' electronic audit file platforms, by screen sharing and obtaining copies of work papers directly from the component teams. We increased the frequency and attendance of our interactions with component teams.

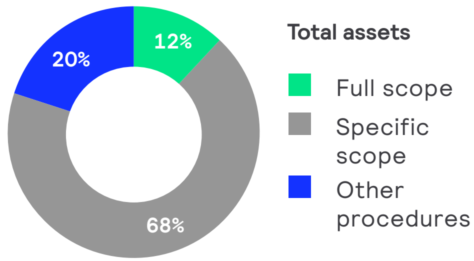
Following our assessment of the risk of material misstatement to Signify N.V.'s consolidated financial statements, we have selected 2 components which required an audit of the complete financial information (Full Scope Component). We have selected 26 components requiring audit procedures on specific account balances that we considered to have the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile (Specific Scope Components). We used the work of other EY member firms when auditing entities outside the Netherlands. We centrally performed audit procedures on accounting areas which are managed centrally such as goodwill, legal claims and treasury.

As a result of our scoping, our actual coverage varies per account balance. In addition, the level of detail of our audit procedures per account balance varies depending on our risk assessment.

Of the remaining components, we performed risk-based analytical procedures to respond to any potential risks of material misstatements to the financial statements.

Accordingly, our coverage of the group's Revenues and Total Assets can be summarized as follows:





By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

Teaming, use of specialists and internal audit

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in Signify's industry. We included specialists in the areas of IT audit, forensics, treasury and income tax and have made use of our own experts in the areas of valuations and actuaries.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal, compliance and heads of Market Groups and Divisions) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. As Signify N.V. is a global company, operating in multiple jurisdictions, we considered the risk of bribery and corruption.

In our process of identifying fraud risks, we considered whether the COVID-19 pandemic gives rise to specific fraud risk factors resulting from a dilution in the effectiveness of controls as a result of the general disruption associated with remote working, illness and workforce reductions, supply chain failures and pressure to make emergency procurements, management overrides and workarounds becoming the norm, manual invoicing and manual payments, abuse of government schemes intended to support companies during the pandemic, management under pressure to meet financial targets, to demonstrate that the actions to limit exposure to losses have been successful, or to meet certain KPIs necessary to qualify for debt financing or meeting debt covenants. Conversely, we also consider whether management has over-provided in their reserves in the current period when expecting poor results with a view to release excess provisions in future periods.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in the Notes to the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Board of Management, reading minutes, inspection of internal audit and compliance reports, and performing substantive tests of details of classes of transactions, account balances and disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally, we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting. Management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by management to make

the assessment, management bias that could represent a risk, the impact of current events and conditions have on the company's operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to meet its obligations as they fall due.
We consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit procedures for the financial statements and the sustainability information. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

The key audit matter "Valuation of deferred tax assets", which was included in our 2019 audit, has been changed to "Valuation of deferred tax assets and liabilities for uncertain tax positions" in our 2020 audit as our audit procedures confirmed an increase in estimation uncertainty regarding the liabilities for uncertain tax positions.

The acquisition of Cooper Lighting Solutions resulted in the identification of a new key audit matter.

The key audit matters were addressed in the context of our audit procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

For the audit of the financial statements we identified the following key audit matters.

Key audit matter	How our audit addressed the matter	Key observations
Improper revenue recognition and risk of management override		
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. Management focuses on sales as a key performance measure which could create an incentive to recognize revenues in the incorrect period due to the pressure management may feel to achieve desired results. Further reference is made to note 2 to the Consolidated financial statements. We considered the impact of COVID-19 on pressure, opportunities and/or rationalization of management to shift revenues and profits. We assessed that improper revenue recognition due to risk of management override relating to material projects and sale of goods, represents a key audit matter.	Our audit procedures included the assessment of the appropriateness of the company's revenue recognition accounting policies. We obtained an understanding of the design of key controls in the revenue recognition process. We used data-analytics to audit key risk areas and identify exceptional or unusual revenue streams and patterns. We audited significant sales contracts and performed cut-off procedures to ensure revenue is recognized in the correct period.	We concur with the revenue recognized in the financial statements.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of goodwill		
At December 31, 2020, the total carrying value of goodwill amounted to €2,251 million, representing 29% of total assets. Goodwill is allocated to Cash Generating Units (CGUs), which due to a change in Signify's organizational structure have been updated to correspond to the new operating segments as disclosed in note 1. The goodwill resulting from the acquisition of Cooper Lighting Solutions is added to the goodwill of CGU Digital Solutions and as such included in the impairment test of that CGU. Goodwill is not amortized but tested for impairment annually and whenever impairment indicators require so. The negative impact of COVID-19 on the global economy was an impairment trigger resulting in the company performing a goodwill impairment test in the second quarter of the year. This test was in addition to the annual impairment test that was performed in the last quarter of the financial year. As the determination of the value in use of goodwill is based on significant judgment and a complex valuation method, including the determination of the CGUs and the assumptions to support this recoverable amount (as disclosed in note 15), we consider this a key audit matter.	As part of our audit, we assessed and tested the assumptions, methodologies, and data used by the company in its impairment test, by comparing these to external data such as expected inflation rates, discount rates, implied growth rates and COVID-19 recovery. Additionally, we validated that the cash flow projections used in the valuation are consistent with the approved strategic plans and have evaluated the historical accuracy of management's estimates that drive the assessment, such as the expected growth rates. We performed sensitivity analyses by stress testing the key assumptions in the model to determine the degree to which these assumptions would need to change before an impairment charge is triggered. We included in our team a valuation expert to assist us in these audit activities. We specifically focused on the sensitivity of the headroom in CGU Digital Solutions and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We assessed the adequacy of the company's disclosure around goodwill as included in note 15 to the consolidated financial statements as well as the company's accounting policies that are more critical in nature as included in note 2 to the consolidated financial statements.	We consider management's assumptions to be within a reasonable range. We concur with management's conclusion that no impairment of goodwill is required as at December 31, 2020 and with the related disclosures in the financial statements.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of deferred tax assets and liabilities for uncertain tax positions		
At December 31, 2020, the net deferred tax assets amount to €452 million and the income tax payable under non-current liabilities related to tax uncertainties amount to €108 million. Further reference is made to note 9 of the consolidated financial statements. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The ultimate tax effects of transactions may be uncertain for a considerable period of time, requiring management to estimate the related current and deferred tax treatments. The accounting for deferred tax assets and liabilities for uncertain tax positions is a focus area in our audit as the company has extensive international operations and makes judgments and estimates in relation to the realization of deferred tax assets and liabilities for uncertain tax positions. These judgments and estimates include those relating to the tax impact of changes in the organizational structure. In addition, they include uncertainties related to the impact of COVID-19.	Together with our tax experts we evaluated the tax accounting in various jurisdictions the company operates in, taking into account the impact of the local jurisdictions. We specifically focused on the impact of the one-time non-cash tax benefit from changes in the organizational structure as disclosed in note 9 of the consolidated financial statements on the valuation of deferred tax assets and liabilities for uncertain tax positions. We tested the assumptions management used to determine the probability that deferred tax assets recognized in the balance sheet will be recovered. We evaluated and challenged the company's judgments and estimates of uncertain tax positions resulting from ongoing local tax audits and legislative developments, and relevant historical and recent judgments. Where possible, we compared information provided by management to corroborative or contradictory information. We also assessed the adequacy of the company's disclosure included in note 9 in respect of deferred tax assets and other tax liabilities related to tax uncertainties.	We concur with the estimates and assumptions made by management relating to the valuation of deferred tax assets and liabilities for uncertain tax positions, and conclude the related disclosures to be sufficient.

Key audit matter	How our audit addressed the matter	Key observations
Acquisition Cooper Lighting Solutions		
On March 2, 2020, Signify completed the acquisition of Cooper Lighting Solutions as detailed in note 11 of the consolidated financial statements. The acquisition is accounted for as a business combination. Accounting for the acquisition requires significant estimations in: • determining final settlement of the purchase consideration • determining the fair value of assets and liabilities acquired (including intangible assets) • alignment with Signify accounting policies and principles Signify engaged a third party specialist to support in the due diligence process and with the valuation and accounting of the acquisition. Based on the level of judgment included in accounting for the acquisition and the significance of the acquisition to Signify's financial position, we consider the Cooper Lighting Solutions acquisition a key audit matter.	We examined the sale and purchase agreement, due diligence report, third party specialist reports and minutes of meetings with the seller. We evaluated the competency and objectivity of the third party specialist engaged by the company. We involved our valuation specialists to validate the appropriateness of the methodology applied by management in determining the fair value of the acquired assets and liabilities. Key assumptions challenged and tested include discount rates, (terminal) growth rates, cash flow projections (taking into account COVID-19 impact as per acquisition date) and useful lives assigned. We determined the mathematical accuracy of the model used for the valuation. We also evaluated the adequacy of the disclosures in relation to the acquisition provided in note 11.	We concur with the methodologies applied, the estimates and assumptions made by management and the disclosures in the financial statements relating to the acquisition of Cooper Lighting Solutions.

For the audit of the sustainability information, we identified the following key audit matters:

Key audit matter	How our procedures addressed the matter	Key observations
Reporting criteria for sustainable revenues		
The level of sustainable revenues (as disclosed in chapter 16.4.1) is an important key performance indicator (KPI) in the sustainability strategy. This KPI is based on reference products which are continuously improving in time.	Our procedures focused on evaluating whether the self-developed reporting criteria for this indicator are suitable and consistently applied and assessing whether the disclosure of the reporting criteria in the annual report is sufficient for a proper understanding by the reader. Further reference is made to the Sustainability supplement as referred to in chapter 16.1.4.	We concur with the methodologies applied, the estimates and assumptions made by management and the sufficiency of the related disclosures in the annual report and methodology document relating to the reporting criteria for sustainable revenues.
Estimates and assumptions concerning the calculated impact of avoided CO_2 as presented in the value creation model		
Inherent to the nature of calculating avoided CO_2 and expressing this in monetary terms is that this is to a large extent based on the use of estimates and underlying assumptions which require additional attention in our procedures. Further reference is made to the Value creation model as disclosed in chapter 3.3.	Our procedures focused on evaluating whether the methodology is suitable, consistently applied and assessing the reasonableness of estimates and assumptions. Furthermore, we evaluated whether the related disclosures in the annual report and in the document "methodology for calculating our societal impact" are adequate.	We concur with the criteria, its application by management and the disclosures made by management relating to the calculated impact of avoided CO_2 as presented in the value creation model.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by the Supervisory Board as the auditor of Philips Lighting N.V. (Signify N.V.) on July 15, 2016 for the audit of 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we provided services in connection with the prospectus for the offering of notes be listed on the Luxembourg Stock Exchange.

European Single Electronic Reporting Format

Signify N.V. has prepared the annual report in the European single electronic reporting format (ESEF). The requirements for this format are set out in the Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in the XHTML format, including the partially marked-up consolidated financial statements, as included in the reporting package by Signify N.V., has been prepared in all material respects in accordance with the RTS on ESEF.

Management is responsible for preparing the annual report, including the financial statements, in accordance with RTS on ESEF, whereby management combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package is prepared in accordance with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the Signify N.V.'s financial reporting process, including the preparation of the reporting package
- obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance and the XBRL extension taxonomy files has been prepared in accordance with the technical specifications as included in the RTS on ESEF
- examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Responsibilities

Responsibilities of management and the Supervisory Board

The Board of Management is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code. The Board of Management and the Supervisory Board are responsible for ensuring that the remuneration report is drawn up and published in accordance with sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code. In accordance with the Dutch Corporate Governance Code, the Supervisory Board renders account of the implementation of the remuneration policy in 2020 in the remuneration report, as prepared by the Remuneration Committee.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria as disclosed in note 16 of the annual report, including the identification of the stakeholders and the determination of material issues.
The choices made by management with respect to the scope of the sustainability information are included in section 16.1 Approach to sustainability reporting of the annual report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the (financial) reporting process of Signify N.V.

Our responsibilities

Our responsibility is to plan and perform the audit engagements in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinions.

Our audit of the financial statements and the sustainability information have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinions.

We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

A further description of our responsibilities is included in the Annex to the combined independent auditor's report.

Amsterdam, the Netherlands
February 23, 2021

Ernst & Young Accountants LLP

O.E.D. Jonker

Annex to the combined independent auditor's report

Work performed

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and company) included amongst others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our audit to obtain reasonable assurance about the sustainability information included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates by management.
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Identifying and assessing the risks that the sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk that the sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability strategy, policy and results.
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
  - Determining the nature and extent of the audit procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. Visits to production sites in Poland and India aimed at, on a local level, validating source data and to evaluate the design, implementation and operation of control validation procedures.
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company.
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the sustainability information.
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level.
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit.
- Evaluating the overall presentation, structure and content of the sustainability information.
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.
By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the

financial statements or in our audit of the sustainability information.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements and the sustainability information. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

18 Reconciliation of non-IFRS financial measures

Explanation of non-IFRS financial measures

Certain parts of this Annual Report contain financial measures that are not measures of financial performance or liquidity under IFRS. These are commonly referred to as non-IFRS financial measures and include items such as comparable sales growth, adjusted gross margin, EBITA, Adjusted EBITA, free cash flow and other related ratios.

Although the non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, the company uses these measures to monitor the underlying performance of its business and operations. These measures have not been audited or reviewed by the company's external auditor. Furthermore, these measures may not be indicative of the company's historical operating results, nor are such measures meant to be predictive of the company's future results. These measures are presented in this Annual Report because the company considers them an important supplemental measure of its performance and believes that these and similar measures are widely used in the industry in which it operates, as a means of evaluating a company's operating performance and liquidity.

Changes to Financial Reporting

As of Q2 2020, Signify changed its organizational structure (for more details refer to note 1, Basis of preparation, of this Annual Report). The financial impact for Division Digital Products (formerly BG LED & Home) is stated in the table below:

Digital Products, in millions of EUR, except percentages

2019	LED	Home	Total	Digital Products
Comparable sales growth	(1.1)%	11.3%	n.a.	1.4%
Sales	1,891	521	2,412	2,412
Adjusted EBITA	240	20	260	260
Adjusted EBITA margin	12.7%	3.8%	n.a.	10.8%
EBITA	217	5	222	222
Income from operations (EBITA)	212	3	215	215

Comparable sales growth

The company discloses comparable sales growth as a supplemental non-IFRS financial measure, as the company believes that the presentation of comparable sales growth is a meaningful measure for investors to evaluate the performance of the company's business activities over time. The company determines comparable sales growth by deducting the percentage figures for changes from the nominal change of sales. Interaction effects between currency movements, changes in consolidation, regulatory changes and changes in accounting standards (second order effects) are not taken into account. The company presents comparable sales growth on both a Division and Market Group basis. Comparable sales growth is also used by the company as a key financial measure to assess the operating performance of the Divisions and Market Groups.

Sales growth composition per business in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Digital Solutions	(14.4)	(2.1)	39.3	22.8
Digital Products	(8.3)	(2.3)	5.5	(5.1)
Conventional Products	(16.5)	(2.0)	(0.2)	(18.7)
Signify	**(12.7)**	**(2.2)**	**19.0**	**4.1**

Sales growth composition per market in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(6.8)	(1.0)	(0.2)	(7.9)
Americas	(15.9)	(2.7)	56.8	38.1
Rest of the World	(16.3)	(3.0)	0.1	(19.1)
Global businesses	(7.3)	(1.6)	38.8	29.8
Signify	**(12.7)**	**(2.2)**	**19.0**	**4.1**

In 2020 Americas includes Cooper Lighting and Global businesses includes Klite

EBITA and Adjusted EBITA

The company discloses EBITA, Adjusted EBITA and Adjusted EBITA ratio as supplemental non-IFRS financial measures, as the company believes these are meaningful measures to evaluate the performance of the company's business activities over time. The company understands that these measures are used by analysts, rating agencies and investors in assessing the company's performance. The company presents EBITA, Adjusted EBITA and Adjusted EBITA ratio on a Division basis. The company also believes that the presentation of EBITA, Adjusted EBITA and Adjusted EBITA ratio provide useful information to investors on the development of the company's business and enhance the ability of investors to compare profitability across the Divisions. In the case of EBITA, the company believes that it makes the underlying performance of its businesses more transparent by factoring out the amortization and impairment of acquisition-related intangible assets and goodwill, which arises when acquisitions are consolidated by the company. In the case of Adjusted EBITA and Adjusted EBITA ratio, the company believes that these measures make the underlying performance of its businesses more transparent by factoring out restructuring costs, acquisition-related charges and other incidental charges which are not directly related to the operational performance of a Division. EBITA, Adjusted EBITA and Adjusted EBITA ratio are also used by the company as key financial measures to assess the operating performance of the Divisions.

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

	Signify	Digital Solutions	Digital Products	Conventional Products	Signify Other
2020					
Adjusted EBITA	695	330	295	170	(100)
Restructuring	(83)	(30)	(10)	(23)	(19)
Acquisition-related charges	(63)	(62)	(1)	0	0
Incidental items	(13)	(8)	(6)	3	(1)
EBITA	**536**	**230**	**277**	**149**	**(120)**
Amortization [1]	(120)	(111)	(8)	–	(1)
Income from operations (EBIT) [2]	**416**	**119**	**269**	**149**	**(122)**
2019					
Adjusted EBITA	648	265	260	222	(100)
Restructuring	(99)	(22)	(19)	(44)	(14)
Acquisition-related charges	(13)	(9)	(3)	0	0
Incidental items	(36)	(11)	(16)	(10)	1
EBITA	**500**	**222**	**222**	**168**	**(112)**
Amortization [1]	(99)	(90)	(7)	0	(2)
Income from operations (EBIT) [2]	**401**	**133**	**215**	**168**	**(114)**

1 Amortization and impairments of acquisition-related intangible assets and goodwill.
2 For a reconciliation to income before taxes, refer to note 3, Information by segment and main country, of this Annual Report.

Adjusted gross margin

The company discloses adjusted gross margin as a supplemental non-IFRS financial measure. The company believes it is a meaningful measure to evaluate the company's gross margin on a comparable basis over time. The measure factors out restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales which are not directly related to the operational performance of the company. Adjusted gross margin is also used by the company as a key financial measure to assess the operating performance of the company.

Adjusted indirect costs: adjusted SG&A costs and adjusted R&D costs

The company discloses adjusted SG&A costs and adjusted R&D costs as supplemental non-IFRS financial measure. The company believes they are meaningful measures to evaluate the company's SG&A costs and R&D costs on a comparable basis over time. The measures factor out restructuring costs, acquisition-related charges and other incidental charges attributable to SG&A and R&D costs which are not directly related to the operational performance of the company. Adjusted SG&A costs and adjusted R&D costs are also used by the company as key financial measures to assess the operating performance of the company.

Income from operations to Adjusted EBITA in millions of EUR

	Reported	Restruc-turing	Acquisition related charges	Incidental items[3]	Adjusted
2020					
Sales	6,502	0	0	0	6,502
Cost of sales	(4,004)	41	21	(4)	(3,946)
Gross margin	**2,499**	**41**	**21**	**(4)**	**2,556**
Selling, general and administrative expenses	(1,781)	23	44	20	(1,695)
Research and development expenses	(307)	20	1	0	(287)
Indirect costs[2]	**(2,088)**	**42**	**45**	**20**	**(1,982)**
Impairment of goodwill	0	0	0	0	0
Other business income	12		(2)	(2)	8
Other business expenses	(7)	0	0	0	(7)
Income from operations	**416**	**83**	**63**	**13**	**575**
Amortization[1]	(120)	0	0	0	(120)
Income from operations excluding amortization (EBITA)	**536**	**83**	**63**	**13**	**695**
2019					
Sales	6,247	0	0	0	6,247
Cost of sales	(3,940)	50	2	1	(3,887)
Gross margin	**2,307**	**50**	**2**	**1**	**2,360**
Selling, general and administrative expenses	(1,637)	36	11	47	(1,544)
Research and development expenses	(283)	13	0	0	(270)
Indirect costs	**(1,920)**	**50**	**11**	**47**	**(1,813)**
Impairment of goodwill	0	0	0	0	0
Other business income	22	0	0	(13)	9
Other business expenses	(8)	0	0	1	(7)
Income from operations	**401**	**99**	**13**	**36**	**549**
Amortization[1]	(99)				(99)
Income from operations excluding amortization (EBITA)	**500**	**99**	**13**	**36**	**648**

1 Amortization and impairment of acquisition-related intangible assets and goodwill.
2 Adj. indirect costs included a positive currency impact of EUR 26 million and changes in scope of EUR 361 million in 2020. Adjusting for the currency and changes in scope, indirect costs reduced by EUR 166 million on a comparable basis.
3 Incidental items are non-recurring by nature and relate to the separation from Koninklijke Philips N.V., company name change, transformation, environmental provision for inactive sites, and discount effect of long-term provisions.

Free cash flow

The company discloses free cash flow as a supplemental non-IFRS financial measure, as the company believes it is a meaningful measure to evaluate the performance of the company's business activities over time. The company understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing the company's performance. The company also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the company's operating activities after deducting cash outflows for additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the company's business. In addition, because free cash flow is not impacted by purchases of businesses, it is less volatile than the total of cash flows from operating and investing activities. Free cash flow is also used by the company as a key financial measure to assess the operating performance of the company.

Composition of cash flows in millions of EUR

	2019	2020
Cash flows from operating activities	599	891
Cash flows from investing activities	(145)	(1,379)
Cash flows before financing activities	**454**	**(488)**
Cash flows from operating activities	599	891
Net capital expenditures:		
• Additions of intangible assets	(29)	(32)
• Capital expenditures on property, plant and equipment	(58)	(67)
• Proceeds from disposal of property, plant and equipment	16	25
Free cash flows	**529**	**817**

Free cash flows in millions of EUR

	2019	2020
Digital Solutions [1]	319	436
Digital Products [1]	240	406
Conventional Products [1]	222	188
Other	(252)	(213)
Signify total	**529**	**817**

1 Excluding non-allocated free cash flow items (e.g. tax, interest).

Net debt

The net debt position as a percentage of the sum of the company's equity (shareholders' equity and non-controlling interests) and net debt are presented to express the financial strength of the company. The company understands that this measure is used by analysts, rating agencies and investors in assessing the company's performance.

Composition of net debt to total equity in millions of EUR unless otherwise stated

	2019	2020
Short-term debt	96	86
Long-term debt	1,369	2,221
Gross debt	**1,465**	**2,307**
Cash and cash equivalents	(847)	(1,033)
Net debt	**618**	**1,275**
Shareholders' equity	2,181	2,196
Non-controlling interests	142	124
Total equity	**2,324**	**2,321**
Net debt and total equity	2,942	3,595
Net debt divided by net debt and total equity (in %)	21%	35%
Total equity divided by net debt and total equity (in %)	79%	65%

Working capital

The company discloses working capital as a supplemental non-IFRS financial measure, as the company believes it is a meaningful measure to evaluate the company's ability to maintain a solid balance between growth, profitability and liquidity. Working capital is broadly analyzed and reviewed by analysts and investors in assessing the company's performance. This measure serves as a metric for how efficiently a company is operating and how financially stable it is in the short term. It is an important measure of a company's ability to pay off short-term expenses or debts.

Working capital to total assets in millions of EUR

	2019	2020
Working capital	**388**	**313**
Eliminate liabilities comprised in WoCa:		
• Trade and other payables	1,684	1,731
• Derivative financial liabilities	20	44
• Other current liabilities	183	213
Include assets not comprised in WoCa:		
• Non-current assets	3,541	4,334
• Income tax receivable	48	39
• Cash and cash equivalents	847	1,033
• Assets classified as held for sale	4	3
Total assets	**6,715**	**7,710**

19 Definitions and abbreviations

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 research and development (R&D) expenses
Research and development expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to research and development expenses.

Adjusted selling, general and administrative (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.

Ballasts
Lamp control gear inserted between the supply and one or more discharge lamps, which, by means of inductance, capacitance or a combination of inductance and capacitance, serves mainly to limit the current of the lamp(s) to the required value.

Capital employed
The sum of equity and net debt (excluding pension liabilities).

Carbon footprint
Carbon footprint is expressed in CO_2-equivalent or carbon dioxide equivalent, which is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specific timescale (generally 100 years). Signify measures its operational gross carbon footprint, as well as its net carbon footprint. Signify net carbon footprint = Signify gross carbon footprint - Amount of carbon offset through our carbon offsetting programs.

Circular economy
A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material-, component- and product reuse, as well as new business models such as solutions and services. In a circular economy, the more effective use of materials creates more value, both through cost savings and by developing new markets or growing existing ones.

Compact fluorescent light (CFL)
CFLs usually combine a fluorescent light with an incandescent fixture.

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

Conventional lamps
Non-LED based light emitting light sources, including incandescent lamps, halogen lamps, fluorescent lamps and high intensity discharge lamps.

Conventional luminaires
Light fixtures with a conventional socket (e.g., a screw socket for a conventional lamp or LED lamp).

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 company's figures are included (or excluded) in the comparable 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.

Electronics
Units that regulate the current going through a light source.

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

Employee Net Promoter Score (NPS)
The Net Promoter Score methodology is used to measure employee engagement. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. The scoring for this answer is based on a 0 to 10 scale. Those who respond with a score of 9 to 10 are called Promoters. Those who respond with a score of 0 to 6 are labeled Detractors. Responses of 7 and 8 are labeled Passives. The NPS is calculated by subtracting the percentage of employees who are Detractors from the percentage of employees who are Promoters.

Fluorescent lamp
A lamp which produces light with an electric current conducted through an inert gas producing ultraviolet light that is invisible to the human eye.

Free cash flow
Net cash provided by operating activities minus net capital expenditures. For Digital Solutions, Digital Products and Conventional Products, free cash flow excludes items not allocated to the operating segments, such as interest paid (or received) and income taxes paid.

Global Reporting Initiative (GRI)
The Global Reporting Initiative is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Gross debt
The sum of short-term debt and long-term debt.

Gross margin
Sales minus cost of sales.

Halogen lamp
A type of incandescent lamp with a capsule that holds a special halogen gas composition around the heated filament to increase the efficacy of the incandescence.

High intensity discharge lamp (HID)
A type of conventional lamp that uses electricity arcs between two electrodes to create an intensely bright light where mercury, sodium, or metal halide gas act as the conductor.

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.

Incandescent lamp
A conventional lamp that produces visible light by heating a tungsten filament inside a glass bulb usually filled with an inert gas.

Indirect costs
The sum of Selling, general and administrative and Research and development expenses.

International Standardization Organization (ISO)
The International Standardization Organization is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

LED
Light-emitting diode.

LED-based sales
Sales provided by products, systems and services based on LED lighting technologies.

LED drivers
Lighting electronics that convert input power into a current which remains constant despite fluctuations in voltage.

LED lamp
A solid-state semiconductor device that converts electrical energy directly into light.

LED luminaires
Light fixtures where LED modules are integrated into the luminaire as light source and cannot be separated from the luminaire by the user.

LED modules
Light generating units around which luminaires are built for the purpose of emitting distributed patterns of light.

Light-as-a-service contract
Contracts enabling an integrated solution for customers where customers pay for the provision of light to their premises, while the company plans and builds the lighting infrastructure and ensures its performance until the end of the contract.

Lighting services
Services offered to customers building on a lighting system and enabled by data.

Lighting systems
The combination of luminaires, controls and software. The automation and related controls of lighting within a room, building or outdoor facilities for end-users.

Luminaire
Electrical devices that produce, control and distribute light. Also called light fixtures. They consist of one or more light sources, lamps or sockets that connect the lamps to the electrical power (as well as drivers in some luminaires), and the mechanical components required to support or attach the housing.

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

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

Net leverage ratio (term loan facility agreement of 2020)
The ratio of consolidated reported net debt to consolidated reported EBITDA for the purpose of calculating the financial covenant for the term loan and revolving credit facility agreed in 2020 (if applicable). The financial covenant shall remain suspended so long has Signify has either a public or private investment grade credit rating.

Non-governmental organization (NGO)
A non-governmental organization is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

OEM
Original equipment manufacturer.

R&D expenses
Research and development expenses.

Renewable electricity
Percentage of total electricity usage from renewable sources.

Responsible Business Alliance (RBA)
The Responsible Business Alliance (RBA, formerly known as Electronic Industry Citizenship Coalition) was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. The RBA now includes more than 100 global companies and their suppliers.

Restructuring costs
The estimated costs of initiated reorganizations, the most significant of which have been approved by the company, and which generally involve the realignment of certain parts of the organization.

Return on capital employed
Income from operations adjusted for tax at the effective tax rate, divided by the year-on-year average capital employed.

SG&A expenses
Selling, general and administrative expenses.

Signify
Signify N.V. (the "Company", formerly known as Philips Lighting N.V) and its subsidiaries, within the meaning of Section 2:24b of the Dutch Civil Code.

Supplier sustainability performance
The supplier sustainability performance rate represents the percentage of risk suppliers with an audit score of at least 90 out of 100 points.

Sustainable innovation
Sustainable innovation comprises all research & development activities contributing to lighting technologies considered for sustainable products, systems or services. This means all products, systems, or services that demonstrate a measurable positive impact in energy efficiency (10% or greater), and preferably in one or more sustainable focal areas: Circularity, Weight & Materials, Packaging, Substances, Human-Centric Lighting, Basic Needs or Access to Light. Sustainable innovation spend is the total spending of all R&D projects contributing to sustainable innovation.

Sustainable revenues
Sustainable revenues are measured as a percentage of total revenues per product category and tracked for each division. Sustainable products, systems or services must demonstrate a measurable positive impact in energy efficiency (10% or greater), the most impactful of our sustainable focal areas. Sustainable revenues are defined as products with an energy efficiency of 66 lm/W and higher as well as all systems and services, as these provide additional energy savings. Sustainable products outperform reference products (predecessor product in the particular product family), or product-specific eco-requirements, or by being awarded with a recognized eco-performance label. The lifecycle approach is used to determine the environmental impacts and improvements of our products over their total life cycle (from raw materials, manufacturing, packaging, transportation, product use to disposal). Studies have shown the product use phase being the most important for lighting products.

Switch
Wall mounted devices designed to (i) change the electric connections among its terminals or (ii) engage with the pins of a plug and having terminals for the connection of cables or cords (i.e., socket contacts).

Total Recordable Case rate
Number of injuries and illnesses sustained at work that result in medical treatment, restricted work, lost work-days, or fatality, divided by 100 FTEs.

Weighted average statutory income tax rate
This weighted average statutory tax rate is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the company result before tax.

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.

Zero waste to landfill
Zero waste to landfill refers to manufacturing sites diverting their manufacturing waste to recycling or incineration, instead of to landfill.
To determine waste to landfill in scope of our commitment we exclude the following categories: chemical waste, hazardous waste, one-time waste and regulated waste. When more than 99% of the total operational waste generated from a site is diverted from landfill, a site is considered to qualify as sending ‘zero waste to landfill’.

20 Forward-looking statements and other information

Forward-looking statements and risks & uncertainties

This document contains forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Signify N.V. together with its subsidiaries, including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing Signify 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: fundamental shifts in the industry, the adoption of lighting systems and services, adverse economic and political developments, competition in the general lighting market, integration risks relating to acquisitions, successful implementation of business transformation programs, failure to drive operation excellence and ensure effective supply change management, pension liabilities and costs, exposure to international tax laws. Please see chapter 12, Risk factors and risk management, of this Annual Report 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 Signify. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Annual Report.

Additional risks currently not known to Signify or that Signify 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 Signify or could cause the forward-looking events discussed in this document. Signify 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 Signify 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 Signify 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 financial measures, of this Annual Report.

Fair value information

In presenting Signify's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid on the balance sheet date. When quoted prices or observable market values do not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

IFRS basis of presentation

The financial information included in this document is based on International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), as explained in significant accounting policies, unless otherwise indicated.

Statutory financial statements

Chapter 14, Consolidated financial statements and chapter 15, Signify N.V. financial statements, of this Annual Report, contain the statutory financial statements of Signify N.V.

Regulated information

This document contains regulated information within the meaning of the Dutch Financial Markets Supervision Act.

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