



Annual Report 2022







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.

We leverage over 130 years of leadership in lighting to create dynamic, innovative and human-centric projects.

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.

In homes, offices, shops, supermarkets, sports stadiums, cities, greenhouses and factories – as well as through the Signify Foundation – our purpose is to unlock the extraordinary potential of light for brighter lives and a better world.

Our values

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

Customer first

"We chose Signify for the brand's confidence and the team's support and commitment to enable the project that will further improve the experience of visiting Allianz Parque and taking us one step further in our sustainability goals. It is the type of project that has no room for error and a solid and reliable partner was critical. We are very excited about the conclusion and pioneering in Brazil."
Cláudio Macedo, CEO of WTorre Entretenimento and Allianz Parque

Greater together

"With the start of the war in Ukraine, Signify teams in Eastern Europe urgently helped Ukrainian refugees and colleagues to relocate. They voluntarily welcomed them to their homes and provided immediate resources. The Signify Foundation sent lights to support emergency efforts, and employees donated directly to the Foundation's relief efforts." - Eran Gorgen, CEO Eastern Europe, Signify

Game changer

"Tampere's ambition is to create the most sustainable society using the power of digitalization and technology. It's a society that lives on real-time, data-driven actionable insights. We have partnered with two industry leading companies, Signify and Edzcom, to create the foundation of such a society. With their technology and services, Tampere aims to take a leap forward in creating the society we strive for." – Teppo Rantanen, Executive Director at the City of Tampere

Passion for results

"The investment in modern LED lighting and the Interact system in Netto stores is primarily about generating a positive impact on the natural environment. With the energy-efficient luminaires provided by Signify, we will save more than 10,000 MWh of electricity per year and reduce our carbon footprint by 7,500 tonnes of CO_2 per year, which is equivalent to planting more than 330,000 trees."
Patrycja Kamińska, PR Manager Netto

Always act with integrity

"Integrity means understanding, accepting, and choosing to always act in accordance with moral and ethical principles and values."
Sandra Mendiburu, Content Production Specialist, Global Brand & Marketing, Signify

Table of contents

European single electronic reporting format (ESEF) and PDF version
This copy of the Annual Report is the PDF/printed version of the Annual Report 2022 of Signify N.V. This version has been prepared for ease of use, and does not contain ESEF information as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The official ESEF reporting package is available on our website at https://www.signify.com/static/2022/signify-annual-report-2022.zip.

Forward-looking statements and risks & uncertainties
Please refer to chapter 20, Forward-looking statements and other information, 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

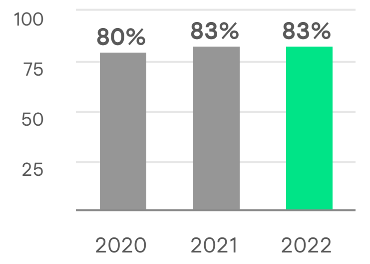
	2021	2022
Comparable sales growth	3.8%	1.2%
Nominal sales growth	5.5%	9.5%
Adjusted EBITA margin	11.6%	10.1%
Net income *	407	532
Free cash flow *	614	445
Net cash provided by operating activities *	704	376

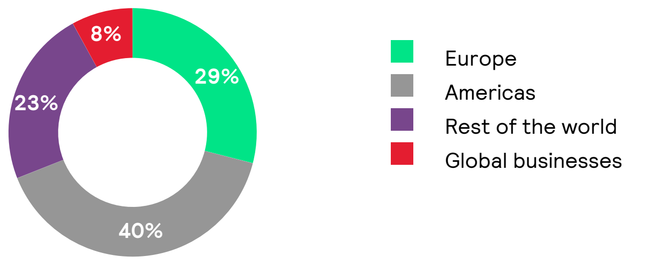
- In EUR million

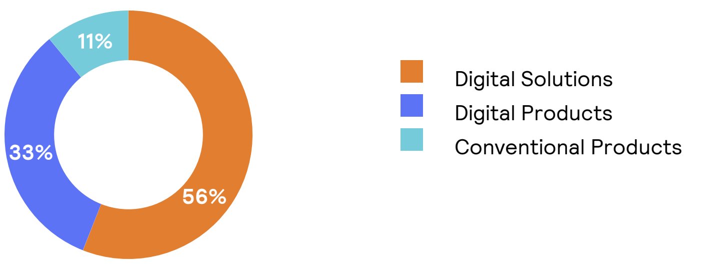
Divisions	Digital Solutions	Digital Products	Conventional Products
Sales *	4,231	2,469	793
Comparable sales growth	7.8%	(3.8)%	(12.6)%
Nominal sales growth	20.1%	0.7%	(7.9)%
EBITA margin	8.8%	11.0%	7.6%
Adjusted EBITA margin	10.0%	12.0%	14.6%

- In EUR million

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. 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.



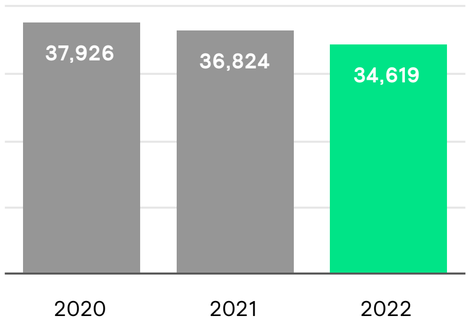




1.2 Sustainability performance

Brighter Lives highlights	2021	2022
Brighter lives revenues	25% – 27%*	27%
Women in leadership	25%	28%
Safety at work (TRC rate)	0.17	0.16
Supplier Sustainability Performance	98%	94%
Lives lit since 2017 (in million)	7.2	8.3

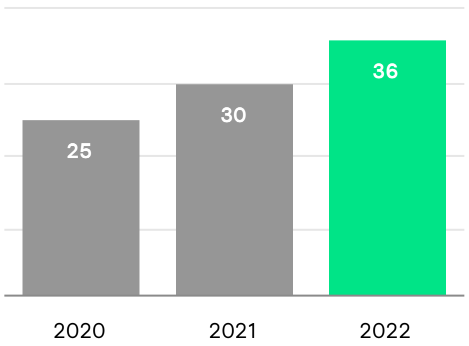
Employees (full-time equivalent)



Better World highlights	2021	2022
Carbon reduction over value chain against Paris Agreement	On track*	On track*
Circular revenues	21% – 25%*	29%
Climate action revenues	61% – 64%*	65%
Carbon neutral operations	100%	100%
Total waste to landfill	<1%	<1%

* Results/assessments are based on current level of availability and accuracy of data

Employee Net Promotional Score



2 CEO message

2022 – Building our agility in an increasingly volatile external environment

“With the climate emergency ever more urgent, it is clear to me that continuing to prioritize and focus relentlessly on sustainability in the past 10 years and again in 2022 has been the right strategy." – Eric Rondolat, Signify CEO

The world endured a third year of exceptionally tough conditions in 2022. Geopolitical crises, COVID-19, persistent supply chain issues and surging energy costs conspired to create an increasingly volatile and unpredictable external environment that profoundly tested our agility and resilience.

While the high volatility impacted our margins and cash, our teams at Signify adapted to the evolving realities and customer needs. In this context, our connected lighting and growth platforms grew to reach almost EUR 2 billion of sales in 2022, and we increased our total connected light points to 114 million globally. By the close of 2022, our two digital divisions had grown to represent more than 85% of sales, profit and cash, up from 80% in 2021.

The difficult conditions also testified to the relevance of Signify’s extensive portfolio of sustainable and connected lighting solutions. With climate change, the energy crisis hitting Europe and spiraling inflation creating a perfect storm, customers in all spheres recognize the urgent environmental and financial need to reduce energy consumption.

In 2022, we reinforced our leading position with the acquisition of Pierlite – which broadened our offer and market coverage in the Pacific region – and Fluence, which enriched our technology portfolio and bolstered our agriculture lighting growth platform in North America. This diversity in our global footprint builds our resilience in challenging markets and expands our business into promising new segments.

Brighter lives and a better world

With the climate emergency ever more urgent, it is clear to me that continuing to prioritize and focus relentlessly on sustainability in the past 10 years and again in 2022 has been the right strategy. More than ever, the world needs sustainable technology innovation that will help mitigate the challenges around us: for example, our Ultra Efficient LED range which cuts current LED electricity use by at least half; or our 3D-printed luminaires made from waste fishing nets, which reduce ocean plastic, and for which we won a Gold IDEA design award in 2022.

More broadly, Signify’s Brighter Lives, Better World 2025 program sets bold targets across the areas of climate action, circularity, and societal impact. We are proud to have pioneered reporting in these areas, measuring the percentage of our annual sales that have a direct, positive impact on the world’s greatest challenges. At the end of 2022, our Brighter lives revenues were at 27%, our Circular revenues at 29% and our Climate action revenues at 65%.

"Even through the complexities of 2022, we continued to prioritize digital transformation initiatives, almost doubling our investment to deliver meaningful progress at speed."

We were happy to see the industry join us in reporting Climate action revenues, driven by the introduction in 2021 of the EU Taxonomy Climate Delegate Act. We also issued our first Climate Action Report, further underscoring our pioneering commitment and robust approach. With the industry and the world now joining the sprint towards sustainability, we will continue to set the bar ever higher.

In terms of societal impact, we published our first-ever dedicated report on Diversity, Equity, and Inclusion at Signify, in which we confirmed we have achieved gender pay equity, meaning that people throughout our organization are paid equitably for the same or similar work. Given that the world saw gender equality take backward steps during the pandemic, in terms of women's participation in the workforce and a widening wage gap, I am proud that people throughout our organization are paid equitably for the same or similar work, and that we continue to increase our representation of women.

This progress and leadership in sustainability was recognized externally again. We featured in Euronext's first AEX ESG Index, based on Sustainalytics data which places Signify in the top 1% of our industry. We secured our inclusion in the Dow Jones Sustainability Index and the CDP Climate A-list for the sixth year running.

Designing our future

Our long history of lighting innovation is a source of great pride within Signify. It is the essence of what we do and how we build for the future. Last year, we invested 3.9% of our sales in R&D, structured within a three-horizon investment schedule - investing in what is stable, what is growing, and what will grow tomorrow.

We continue to innovate in core LED lighting products that meet the world's immediate need to reduce energy consumption. To cite some examples: we have expanded our Ultra Efficient LED portfolio and extended it into the professional sector, offering even greater savings to energy-conscious customers. In luminaires, embracing 3D printing is making supply chain, procurement, manufacturing, and development more sustainable and more efficient.

Our investment in the Internet of Things is bearing fruit, with us now having surpassed 100 million IoT connected devices. And on the consumer side, our WiZ and Philips Hue lamps were the first in the lighting industry to support the Matter standard for smart home interoperability.

Delivering for customers

We aim to delight our customers with bold and sustainable innovations that improve lives. This, however, rests on our ability to deliver what we promise. In 2022, we experienced significant market and supply chain disruption that impacted our deliveries and impacted our customers.

We recognized the issues early on and rapidly corrected our path, making improvements to customer service and order and delivery processes. While order and delivery satisfaction still fell short of the standard we aim for, a steadily recovering transactional Net Promoter Score for both B2B and B2C customers suggests we took the right actions.

Driving digital transformation

Even through the complexities of 2022, we continued to prioritize digital transformation initiatives, almost doubling our investment to deliver meaningful progress at speed. Our digital transformation roadmap focuses on three areas: processes, customer interfaces, and product offerings.

On the processes side, our investment in an advanced Integrated Business Planning (IBP) digital platform is enabling us to create a more reliable, resilient, and agile supply chain, combining demand, inventory, and supply planning in a single end-to-end cloud-based solution. Through IBP, we are better able to bring customers the right part at the right time and location, with optimal efficiencies.

We continue to make strong progress on digitalizing our customer interfaces to reach customers on their terms. We have launched online channels for some of our new offerings, modernized our online presence across multiple markets and product segments, and improved the robustness of our digital platforms.

Regarding our products, sensor technology is reaching mass scale, combining lighting with location services and personal control. Indeed, I see this in action every day at our offices around the world, where our own technologies support our daily work.

Uniting our people

Our people are the beating heart of our organization, so I'm pleased we have been able to return to the pre-pandemic situation, with our offices and factories, our standard workplace. We strongly value human interaction as a source of fellowship, innovation, creativity and team productivity, and we are convinced that working together in the office fosters a sense of belonging.

Our goal is not just a productive workplace, but a rich and inclusive culture and work environment where people can perform to the best of their talents and be themselves, supported by our values. I am proud that our quarterly employee NPS has climbed steadily to reach its highest recorded level in 2022.

Everything you will read about in the following pages was achieved through the exceptional work of our employees. They confronted a challenging year with focus, commitment and ingenuity, and for this they have my unreserved admiration and gratitude. I am also deeply thankful to the customers, partners and shareholders who continue to put their trust in Signify.

Our world will remain volatile in 2023, yet I am confident we will weather the storm and adapt to become an even stronger company that continues to navigate the complexities, capture the opportunities, and fulfill our promise of brighter lives and a better world.

Eric Rondolat
CEO Signify

3 Creating long-term value

3.1 Our strategy

Who we are

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 products, systems and services. With more than 34,600 employees, a presence in 74 countries and our sales covering a global market, our purpose is to unlock the extraordinary potential of light for brighter lives and a better world.

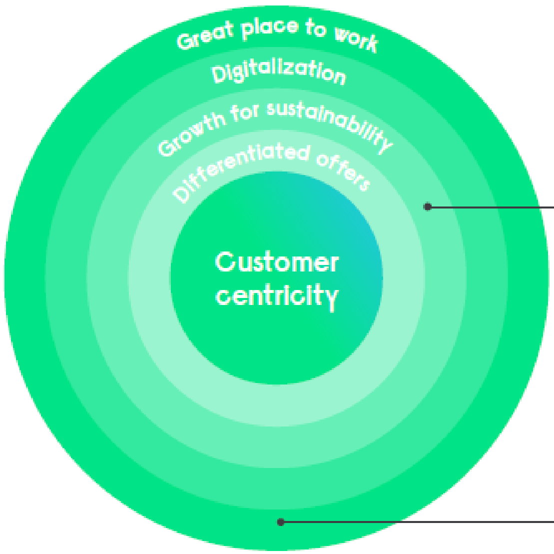
We have pioneered many key breakthroughs in lighting over the past 130 years and have been a driving force behind several leading technological innovations. Signify continues to innovate in LED lighting and is leading the industry's expansion to lighting systems in both the professional and consumer markets. Our position as industry leader in connected lighting, makes Signify the lighting company for the Internet of Things (IoT).

Strategic context

Global growth has been impacted by political and economic disruptions that have emerged in the current year. On top of resource scarcity and supply disruptions from last year, heightened geopolitical tensions have contributed to abnormal inflation levels and energy costs. We are seeing a shift towards energy-efficient solutions, driven by consumers tackling rising costs and looking for more sustainable solutions. These key trends have a direct impact on our operations and reflect the need to remain agile in an evolving environment.

Every year, Signify performs a Strategic Review Process, combined with a sound Sustainability Materiality Assessment (more can be found in chapter 16, Sustainability statements). These processes involve a large number of internal and external stakeholders and help us identify future trends and understand stakeholders' perspectives at a global and local level. This helps us to better manage the risks and opportunities that could impact our ability to create value in the long term.

As a result of our annual review in 2022, and despite the challenging environment requiring acceleration in some areas, our focus on delivering on our 5 Frontiers strategy and progressing on our Brighter Lives, Better World 2025 commitments is more relevant than ever.



Sustainability focus and UN SDGs	SDGs	Doubling objectives	
Climate action	7 Affordable and clean energy; 13 Climate action	**Double** the pace we achieve the 1.5°C scenario of the Paris Agreement	Better World
Circular economy	12 Responsible consumption and production	**Double** our Circular revenues to 32%	Better World
Food availability Safety & security Health & well-being	3 Good health and well-being; 11 Sustainable cities and communities	**Double** our Brighter lives revenues to 32%	Brighter Lives
Great place to work	8 Decent work and economic growth	**Double** our percentage of women in leadership to 34%	Brighter Lives

Putting our own technology to work in Signify's Amsterdam office

Lighting innovations go beyond illumination to create a great place to work.

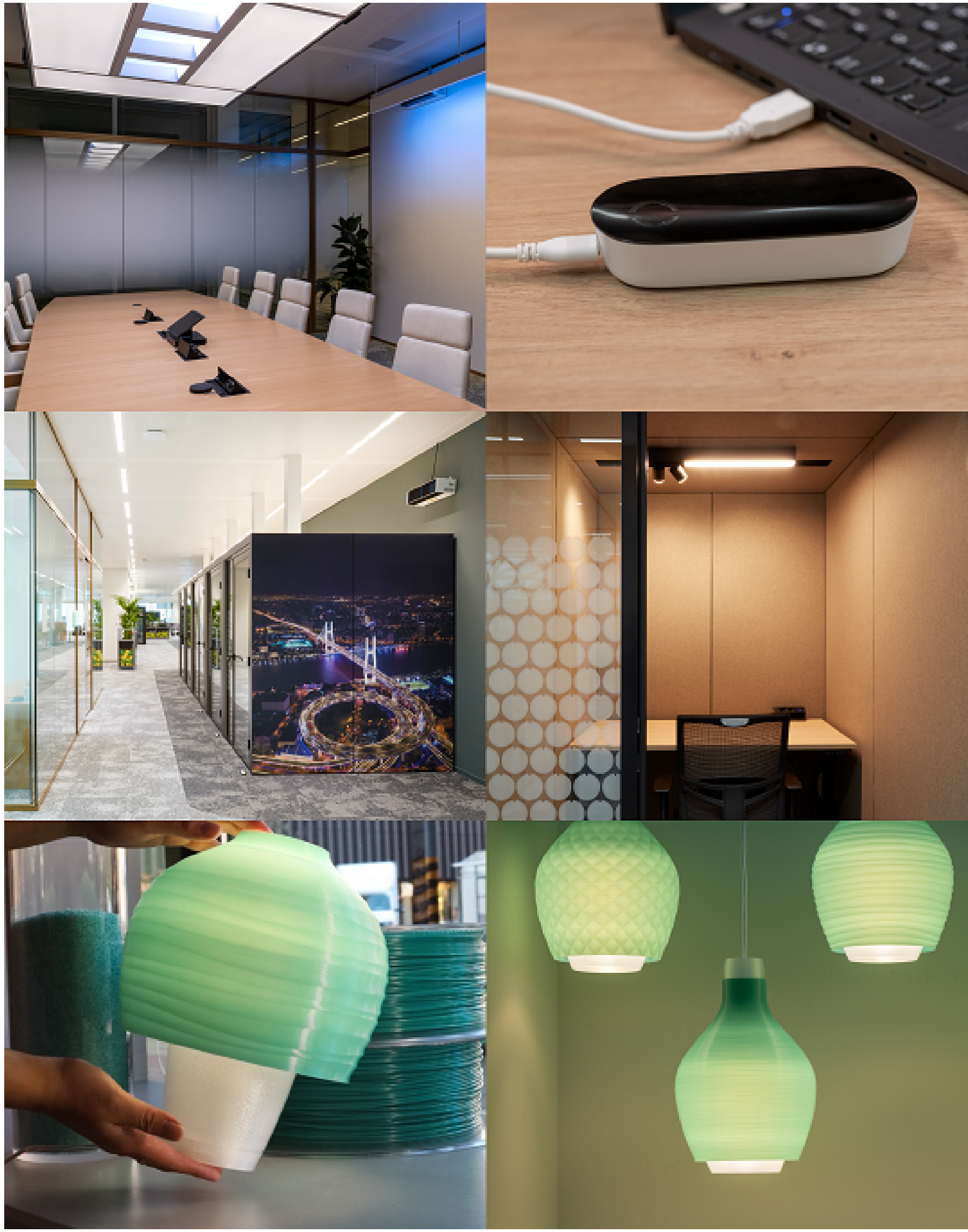
When Signify planned a move to new offices in Amsterdam, our own technology was firmly at the forefront in the design. The new location is part of EDGE Amsterdam West, a redevelopment of a unique 1970s building, structured around a central green atrium with a striking glass roof. Completed in 2021, the building is designed to the highest standards of sustainability, office health, and innovation. Even away from the bright, central space, it's still possible to enjoy the energizing properties of natural daylight in rooms equipped with NatureConnect. Built on biophilic design principles, NatureConnect uses a combination of LED luminaires and intuitive lighting controls to create a fully immersive experience that brings the feeling of the outdoors into the office. By supporting the body's natural rhythms, NatureConnect supports productivity and well-being at Signify by helping colleagues stay alert and productive by day and rest well at night.

"Customers who visit the office are blown away when they experience NatureConnect. This dynamic natural light system boosts the health and well-being of professionals working indoors. Customers also love the skylight luminaire, which gives the impression of being directly underneath the blue sky while deep inside a building. We often get the feedback that people expect birds or planes to fly over, which shows how closely it mimics a real-life setting."

Wouter Boxhoorn, Global Business Development Manager, NatureConnect

Beautiful examples of Signify's lighting design can be discovered throughout our offices, from subtle luminous surfaces to eye-catching 3D printed luminaires, which are recyclable and support a circular economy. And the lighting is doing far more than illuminating the space. UV-C disinfection upper air luminaires purify the air throughout the day, neutralizing bacteria, viruses, and other airborne pathogens. Employees can connect to fast, secure internet through Trulifi, which offers exceptional speed, stability and security through light, or book a workstation through Interact Workspace, an extension of the Interact connected lighting system that works behind the scenes to manage lighting and other smart building features in Signify's offices and throughout the entire building. The Interact system supports the building's impressive sustainability credentials, bringing together energy performance and usage data to optimize, automate and remotely manage lighting throughout the building. This combination of the aesthetic and the practical creates a beautiful, functional workplace where employees can thrive.

EDGE Amsterdam West is just one of the Signify offices around the world that benefits from our own technology. At the end of 2022, 86 Signify offices, from Guangzhou to Burlington, had been upgraded with UV-C disinfection lighting, Interact, NatureConnect or Trulifi.



NatureConnect/3D/UV-C/Trulifi/Interact - Signify Amsterdam office - the Netherlands

Philips GreenPower LED horticulture - Bustanica - Dubai

Growing fresh greens in the desert

World's biggest vertical farm ensures sustainable cultivation of hygienic, tasty food for Emirates passengers.

Dubai is home to one of the world's busiest airports. National airline Emirates flies from the city to more than 100 destinations in 60 countries every day – serving up as many as 200,000 meals in the process. That's a challenge when it comes to fresh vegetables: the harsh desert climate is not conducive to cultivating leafy greens. But flying in fragile crops from other countries is inefficient and unsustainable.

The solution? Bustanica, the largest vertical farm in the world. Located near Al Maktoum International Airport, the three-hectare indoor farm consists of 27 grow rooms, each with its own climate system, controls, and special LED lighting from Signify. Different LED lights are used at different stages of plant development, with lights tailored specifically for the indoor crops.

The state-of-the-art hydroponic facility can produce more than one million kilograms of high-quality leafy greens each year using up to 95% less water than conventional agriculture, saving 250 million liters of water every year compared to traditional outdoor farming.

The farm's focus on water security supports the UAE's Water Security Strategy 2036 agenda. Accelerating self-sufficiency in fresh food produce, supporting sustainability, and long-term food security are top priorities for the UAE.

Vertical farming techniques and innovative technologies used at the facility eliminate the use of pesticides, chemicals, herbicides, and fungicides. This way, Emirates can ensure a clean, hygienic and tasty product for its passengers in a sustainable and repeatable way.

"The superior performance of the lights we use is specifically tailored to the plants we're cultivating, allowing them to grow to their optimum nutritious best. Lighting is such an important part of the entire functioning of the farm. These lights perform strongly in terms of power use, growing efficacy, and the number of lights required to achieve that."

Kieran Dowd, Vice-president of Sourcing Solutions, Emirates Flight Catering

Elevating the training experience at Everlast gyms

Multi-technology lighting project creates an inclusive and immersive class and training experience.

When Frasers Group planned a redesign of its Everlast gyms, it was clear that high performance would be a priority. Members of the 69 gyms across the UK needed a training environment that was welcoming, easy to navigate, and could inspire a great workout. And Frasers Group needed a solution that was energy-efficient, consistent across locations, and easy to manage.

The result is both visually striking and immensely practical. Bold chevrons, lines and squares in the ceiling entice members to distinct innovative zones within the space. Contemporary luminaires from Modular Lighting Instruments create soft, functional light with a clean, minimalist design. And tailor-made 3D printed pendant and projector lights offer one-of-a-kind designs to suit the needs of each location, also contributing to a circular economy.

Everlast's lighting creates a high-energy atmosphere, but not a high energy cost. By designing with LED, the clubs can use just a fraction of the electricity previously needed to power the traditional lighting that was there before. Behind the scenes, the Interact connected lighting system with multisite management capability centralizes lighting controls for a consistent look and feel across clubs and efficient maintenance planning.

"Our first elevated sites reflect our ambitions for Everlast Gyms and perfectly demonstrate the gym experience we aim to bring to all of our members throughout the UK. We needed to make sure that the lighting added to the look and feel of the club, while also keeping the facility environmentally friendly. It's been great to switch on these solutions and I'm looking forward to working with Signify on the rollout across the UK."

Daniel Summerson, Managing Director of Everlast Gyms, Frasers Group

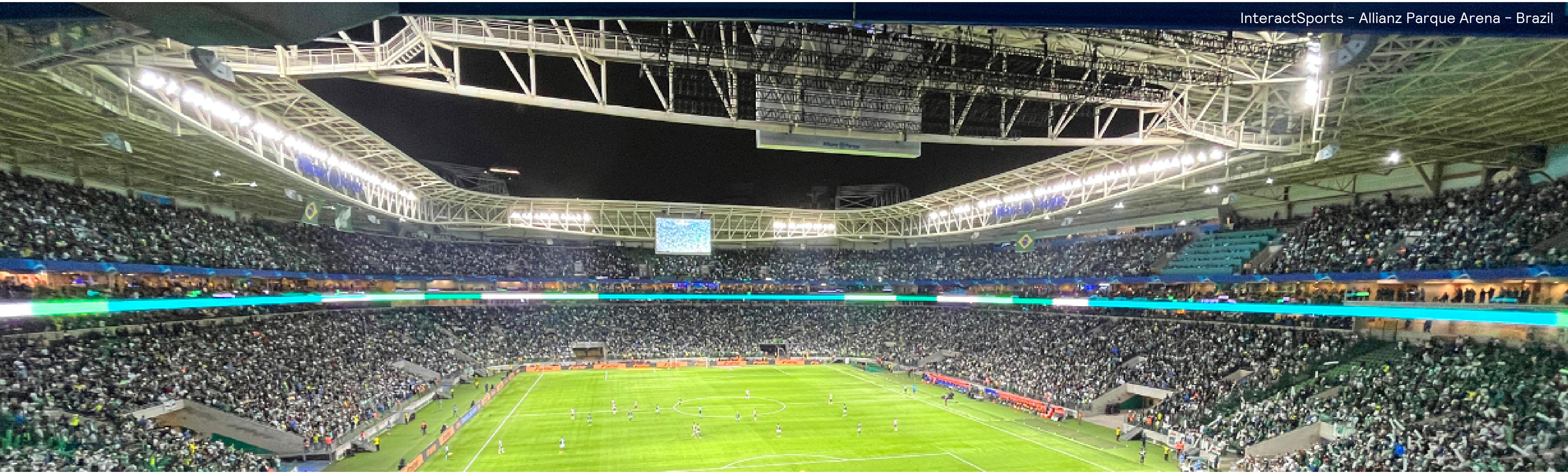
Modular Lighting/3D – Everlast gyms – UK

3.2 Our impact

Our commitments and 2022 achievements

Despite a particularly disrupted external environment, Signify made significant achievements on all its strategic frontiers in 2022. The table below shows that we are on the right path to fulfill our purpose to unlock the extraordinary potential of light for brighter lives and a better world. More information can be found throughout this report.

Our 5 strategic frontiers	Description	Our targets	Our achievements
1. Build a customer-centric organization.	We are building a more customer-focused, more localized operating model and driving improved process excellence.	• Steadily increase customer Net Promoter Score (NPS).	• Customer NPS: 44.
2. Deliver differentiated lighting offers.	We are developing and delivering differentiated lighting products through multiple distinctive brands.	• Grow tiered offering sales and develop new ultra energy-efficient offers on the market in Q3 and Q4.	• 3.9% of sales invested in R&D and 20,300 patent rights. • Comparable sales growth of 1.2%.
3. Drive growth for sustainability.	We are addressing global challenges by focusing on growth areas for sustainability: Climate action, Circular economy, Food availability, Safety & security, Health & well-being.	By the end of 2025: • Double the pace we achieve the 1.5°C scenario of the Paris Agreement. • Double our Circular revenues to 32%. • Double our Brighter lives revenues to 32%	• On track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5°C scenario. • 29% Circular revenues. • 27% Brighter lives revenues.
4. Digitalize and transform for the future.	We are improving our digital front and back-ends and increasing our data analytics capabilities to better serve our customers.	• Increase our (B2B/B2C) online sales.	• Direct online sales at 12.5% of revenues.
5. Be a great place to work.	We are investing in our people, creating a diverse and inclusive workplace, deepening our digital and commercial competencies.	• Double the % of women in leadership to 34% by the end of 2025. • Increase digital and commercial excellence capabilities.	• 28% women in leadership positions. • Employee NPS: 36. • 97% active learners.


InteractSports - Allianz Parque Arena - Brazil

Brazil's first smart dynamic lighting project revolutionizes the audience experience in Allianz Parque Arena

State-of-the art LED lighting combines vibrant entertainment and energy efficiency.

Inaugurated in 2014, Brazil's Allianz Parque is a world-class stadium with ambitions that stretch well beyond soccer. The public experience was the starting point of the design for a project completed in 2022 that transforms the venue into a multi-purpose arena combining sport with entertainment such as shows, events, gastronomy, art and culture.

Signify partnered with construction company WTorre Entertainment and stadium owner Palmeiras to deliver intelligent dynamic lighting technology for the stadium in São Paulo. The new system consists of 180 Philips ArenaVision LED luminaires for field lighting, replacing 274 conventional ones. The result is a vibrant experience for arena-goers, and is expected to generate more than 70% savings on electricity and maintenance costs.

The state-of-the-art technology improves luminosity on the pitch and so increases comfort for players and the public. Excellent uniformity of horizontal and vertical light without flicker effects mean higher quality for HD television broadcasts, and there's a memorable light show to impress both those present in the stadium and people watching on TV.

It's the first time a Brazilian stadium has installed the Interact Sports management system, which enables flexible, multi-purpose venues with optimal lighting across all areas of the stadium. This IoT platform provides real-time intelligent lighting control via software and dashboard insights generation and so enables immersive experiences through lighting, with different scenes and effects.

Interact enables lighting to be integrated into sound systems, synchronized with music, and provide enhanced fan experiences at arenas and at home. Allianz Parque has now taken its place alongside top world stadiums that already use the technology, such as Bayern Munich's Allianz Arena in Germany and Juventus' Allianz Stadium in Italy.

"We chose Signify for the brand's confidence and the team's support and commitment to enable a project that further improves the experience of visiting Allianz Parque and takes us a step further in our sustainability goals. This type of project has no room for error, so a solid and reliable partner was critical."

Cláudio Macedo, CEO of WTorre Entertainment and Allianz Parque Arena

Color Kinetics ReachElite IntelliHue - Basilica of Santa Maria Novella - Italy

Illuminating a Florentine masterpiece

Dynamic and connected LED lighting highlights an architectural treasure.

With half a million visitors each year, the Basilica of Santa Maria Novella is one of Florence's most important attractions. It is home to some of the world's great artistic, religious and cultural treasures and is an artistic work in its own right, with its fifteenth-century white marble façade presiding gracefully over the Piazza Santa Maria Novella.

Firenze Smart, the public company responsible for the Italian city's smart services, aimed to combine sensitivity to this historic landmark with the benefits of modern, energy-saving LED technology and the vitality and artistic possibilities of dynamic lighting. To achieve this, they selected and installed 12 Color Kinetics ReachElite IntelliHue LED projectors, paired with Signify's Interact connected lighting control system.

The IntelliHue lights offered the ability to finely tune shades of white to create exactly the right perception of the quality and uniformity of the façade. A cooler white was selected for the façade than for the surrounding square and historic center, with a warm white picking out the iconic sun decoration. The underlying control and flexibility of Interact and Color Kinetics makes it possible to bring the façade to life with colorful and dynamic scenes for holidays and special occasions.

As well as highlighting the artistic and cultural value of the building, this solution transforms Florence into a smart, dynamic city with even greater energy efficiency.

Keeping schools and public spaces safe in Bad Dürkheim

UV-C disinfection devices are a municipal investment in future health and well-being.

The COVID-19 pandemic put infection protection squarely in the global spotlight. Yet even with the gradual return to everyday life in many countries, high hygiene standards are set to remain a cornerstone of social coexistence. With that in mind, the Bad Dürkheim district in Germany was keen to equip busy public spaces with cost-effective, future-proof disinfection solutions that could be seamlessly integrated into the existing environment.

Four primary schools, seven daycare centers, two after-school care centers, and parts of the Bad Dürkheim town hall were equipped with Philips UV-C disinfection devices from Signify. The municipality used a total of 15 Philips UVCA200 mobile disinfection units and a further 85 Philips SM345C Upper Air UV-C ceiling mounted devices.

Local electricians completed special UV-C training courses before installing the devices with careful attention to aspects such as the size, specificities and aesthetics of the individual rooms. They used photos, sketches and cross-sections to ensure seamless integration of the disinfection units.

The ultraviolet light used in UV-C technology inactivates viruses, bacteria and germs by breaking down the DNA and/or RNA of microorganisms. By investing on a municipal scale in this comprehensive infection protection against germs and viruses, Bad Dürkheim is investing in long-term hygiene, health and well-being for its citizens.

“We thought long and hard about exactly how we could make our schools, daycare centers, after-school care centers and the town hall safer and more hygienic places. With Signify's UV-C technology, we found a long-term and future-oriented solution."

Christoph Glogger,
Mayor of Bad Dürkheim

UV-C - Bad Dürkheim municipality - Germany

3.3 Our value created

Through our company purpose and strategy, we aim to address global challenges and our stakeholders' expectations, while contributing to the achievement of the United Nations Sustainable Development Goals (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 impacts of our business more effectively. For a detailed explanation of our value creation model, indicators and trend analysis, 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 294 million** R&D investments with **90%** sustainable innovation.
- **EUR 3,065 million** total equity.
- **EUR 8,286 million** total assets.

Environmental
- **3,811 terajoules** energy and **100%** renewable electricity.
- **EUR 3,410 million** materials.
- **1,164 thousands** of m^3 water.

Social
- **34,619 FTE** in 74 countries and over 95 nationalities.
- **50%** of female new hires.
- **EUR 3.11 million** spent on training.
- **79** supplier audits.
- **EUR 2.5 million** to the Signify Foundation and CSR activities.

Output

- **EUR 7,514 million** sales.
- Comparable Sales Growth of **1.2%**.
- **EUR 445 million** free cash flow.
- **EUR 287 million** paid in taxes and dividends.
- **20,300** patents rights.
- **44** customer NPS.

- **On track** to double the pace of the Paris Agreement's 1.5°C scenario.
- Carbon neutral operations.
- **65%** Climate action revenues and **29%** Circular revenues.
- **0** waste to landfill, **89%** recycling rate.
- Plastic-free consumer packaging in most of our markets.

- **27%** Brighter lives revenues.
- **28%** Women in leadership and **17%** of employees under 30.
- **0.16** total recordable case rate.
- **36** employee NPS.
- **97%** active learners.
- **94%** supplier sustainability performance.
- **1.1** million lives lit.
- **259** entrepreneurs trained.

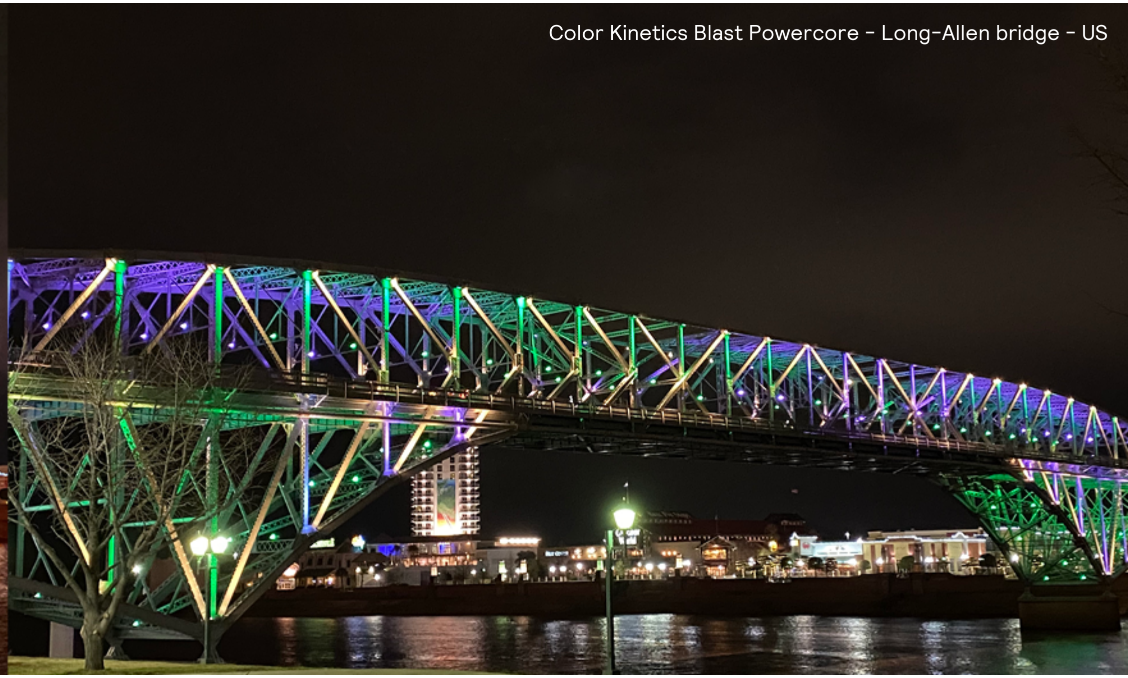
Impact

Brighter Lives
We created EUR 346 million in value for society through total shareholder returns, tax, and interest payments.

We created EUR 1,218 million in value for society through employees' salaries & wages and learning & development combined with the costs to society of injuries & illnesses at work.

Better World
Our environmental footprint caused EUR 3.1 million in costs to society. At the same time, we created EUR 2,645 million through CO_2-equivalent (CO_2e) avoided by shifting to LED*, removing plastic from our consumer packaging, and conserving biodiversity through our offsetting projects.

* Based on use hours of our LED lamps & luminaires sold replacing conventional lighting and resulting in reduced electricity consumption. Avoided emissions are calculated per year for the reporting year.



Color Kinetics Blast Powercore - Long-Allen bridge - US

Connecting communities with a bridge of light

Dynamic, programmable LED lighting brings light and life to a Louisiana landmark.

The O.K. Allen or Long-Allen Bridge, commonly known as the Texas Street Bridge, connects Shreveport and Bossier City in Louisiana, USA. Over time, the bridge's neon lighting system had begun to fail, taking with it an important sense of vibrancy and community pride.

So, the Shreveport Regional Arts Council (SRAC) recruited a team of local artists, designers, and IT professionals to create a new lighting solution that would rejuvenate the region.

Completed in February 2022, Color Kinetics Blast Powercore, IntelliHue luminaires illuminate the bridge's steel structure. The Interact Landmark platform controls the interactive system, with its constantly morphing colors, shapes and forms. Color Kinetics Data Enabler Pro supplies power and data.

Once the installation was in place, it became a flexible artistic canvas to enrich the community. Young people can join a certified residency program and get hands-on experience operating the bridge's lighting controls. People can 'adopt a light', picking colors for special celebrations, announcements, or causes. And during the Art Break festival, SRAC invited the public to use coloring sheets to show how they'd like to see the bridge lit during the event. Hundreds of submissions were scanned into the system and played during a special 20-minute light show.

The unique interactive public art installation has transformed the bridge into a stunning canvas of light that illuminates the river, drives economic development, and breathes new life into the connecting cities.

"Signify and Color Kinetics offered the best products for the project, providing the flexibility to challenge our talented lighting designers to produce a diversity of light shows and excite our community."

Pam Atchison, Executive Director, SRAC

"We haven't just lighted a bridge, we've lighted lives."

Jason Lyons, Resident Lighting Designer, SRAC

Cooper Lighting WaveLinx - Missouri Slope Lutheran Care Center - US

Scalable lighting system for state-of-the-art care home

Advanced integrated sensing capabilities help keep residents safe, active and healthy.

Like most long-term care facilities, Missouri Slope Lutheran Care Center in Bismarck, North Dakota, faced steep challenges. An ageing population and increased demand for care created a need to scale services while dealing with increasing staff shortages and rising healthcare costs – all while raising the quality of care and the overall experience for residents.

With its existing premises at full capacity, Missouri Slope built a state-of-the-art new facility including 192 resident rooms, chapel, entertainment center, beauty salon, on-site pharmacy, memory care unit – and lighting to support all these activities. The facility needed a lighting system that provided return on investment at once, and scalability in the future.

Cooper Lighting's WaveLinx is the heart of the Missouri Slope system, which combines high-quality ambient lighting with advanced integrated sensing capabilities such as daylight, power, and occupancy. The Smart Spaces platform, with its Locate app, provides real-time location system (RTLS) functionalities. It includes wearables, badges, and tags accessories and is replacing traditional disparate RTLS systems of the past with greater value at a lower acquisition and ongoing operational cost.

Residents have more control over their environment, while staff have more information at their fingertips than ever before to help them keep residents safe, active and healthy. And by combining LED light fixtures with a digital control system, the facility can expect energy savings of 70%.

Missouri Slope's lighting system has received national acclaim. It was recognized by the U.S. Department of Energy's 2022 Integrated Lighting Campaign for exemplary performance in building efficiency through advanced sensors and controls in lighting, and the integration of lighting with other building and business systems.

"Our advanced lighting system is the next step in the evolution of modern healthcare delivery. It significantly increases our ability to analyze operations and to improve quality and safety for all who live and work at Missouri Slope."

Reier Thompson, President/CEO, Missouri Slope

Groundbreaking motion detection without sensors

WiZ SpaceSense enables consumers to automate lighting based on motion, without the need for additional hardware.

Installing extra hardware at home to enable motion detection can feel complex, expensive and cumbersome. WiZ removes those hurdles, opening up automations and other advanced benefits of smart lighting to everyone.

SpaceSense is a new innovation in consumer lighting developed by WiZ. For the first time, consumers can enjoy the benefits of motion-based lighting automation, straight out of the box.

SpaceSense uses Wi-Fi signals already present in the room to detect motion, so there's no need for dedicated sensors and batteries. Wi-Fi signals are slightly disturbed when people move around in a room, like a ripple in a swimming pool.

By measuring the small deviations in signal strength caused by those disturbances, the WiZ lights can determine if there is an object moving in the room. With this feature in place, SpaceSense can turn lighting on when people enter, and off when motion is no longer detected.

Privacy and security are top of mind in the WiZ smart lighting system. SpaceSense does not detect people's exact location, nor does it recognize faces. All the detection data is processed locally without going to the Internet or cloud service. And by eliminating extra hardware, WiZ can offer improved functionality without the need for batteries or additional material waste.

SpaceSense is available in all new Connected by WiZ products, including WiZ brand, Philips Smart LED and other OEM and private label brands.

WiZ SpaceSense

3.4 Our contribution

Through our company's strategy and sustainability programs, we directly contribute to our six priority UN SDGs. This section shows how our 2022 activities supported the achievement of these UN Sustainable Development Goals (SDGs). For UN SDGs target reporting, please refer to the Sustainability Supplements of this Annual Report.

Better World

SDG 7: Affordable and clean energy

We deliver energy-efficient solutions through our Climate action lighting portfolio. Our operations run entirely on renewable electricity, and we contribute to the transition to more sustainable electricity supply.

2022 contribution:
- 100% renewable electricity in our operations.
- 65% Climate action revenues.

SDG 12: Responsible production and consumption

We aim to preserve value and minimize waste by developing Circular lighting, sustainable packaging, and good waste management practices. We are plastic-free in our consumer packaging in most of our markets.

2022 contribution:
- 29% Circular revenues.
- Sending 0 waste to landfill, and 89% recycling rate.
- EUR 0.2 million societal costs decreased through eliminating plastic in our consumer packaging.*

SDG 13: Climate action

We drive climate action by being carbon neutral in our operations and reducing greenhouse gas (GHG) emissions over our value chain. We have set approved science-based targets (1.5°C scenario) and we will achieve the goals laid out in the Paris Agreement 1.5°C pathway for 2031 by the end of 2025.

2022 contribution:
- EUR 3.1 million costs to society from our own environmental footprint.*
- On track to deliver against our goal of doubling the pace of the Paris Agreement's 1.5ºC scenario.
- EUR 2,645 million value created to society through CO_2 avoided by shifting to LED, our offsetting projects and the conservation of biodiversity.*

Brighter Lives

SDG3: Health and well-being

We contribute to improving health and well-being by creating light that increases food availability and -enables people to see, feel and function better.

2022 contribution:
- 27% Brighter lives revenues.
- Employee NPS of 36.
- More than 6,000 Solar & LED lamps and 900 UV-C disinfection products donated to health centers.

SDG 8: Decent work and economic growth

We foster decent work and economic growth by creating a fair and inclusive workplace and development opportunities for our employees and suppliers. We provide training and access to finance to lighting entrepreneurs in developing countries.

2022 contribution:
- 0.16 TRC rate and EUR 1.16 million costs to society from injuries & illnesses at work.*
- 94% supplier sustainability performance.
- EUR 346 million value to society through total shareholder returns, tax and interest payments, and EUR 1,218 million through employees' salaries & wages and learning & development.*

SDG 11: Sustainable cities and communities

We enable smart and secure roads and urban areas and enable safe and sustainable workplaces, while accelerating the renovation rate of buildings. Through the Signify Foundation, we provide access to light to off-grid communities.

2022 contribution:
- 1.1 million lives lit, adding up to 8.3 million lives lit since 2017.
- 27% Brighter lives revenues.
- 9 humanitarian projects completed.

* For more details, please refer to our Methodology for calculating societal impact on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

LED battens - Don Bosco KIITEC - Tanzania

A bright future for students in Tanzania

An employee-nominated project empowers girls and boys with high quality vocational training.

The Don Bosco KIITEC vocational training center in Arusha, Tanzania, empowers the region's young people with vocational training in fields including electrical engineering. With the help of indoor and outdoor lighting from Signify, the center can provide a high-quality learning environment that matches its reputation for excellence.

The institute aims to create a community of youth that is equipped with technical skills to generate income and improve local livelihoods. It contributes directly to the UN's SDGs by providing quality education, and further aims to promote gender equality by providing opportunities for both boys and girls to study in a high-quality facility. With a rising student intake, the center needed an expansion that would help more students achieve their potential.

Inside, the center is lit with Signify's energy-efficient LED battens. And outside, solar streetlights keep the surrounding area safe and well-lit, while generating no electricity costs.

Signify first engaged with the project via Project In/Visible, an internal crowdsourcing campaign which enabled employees to direct the company's social good resources to projects close to their hearts. With funding from the Signify Foundation and lighting design created in collaboration with Signify India and Signify Kenya, the center can provide a safe learning environment for 250 students each year.

Solar lights - ASSIST - the Philippines

Solar lights bring relief to evacuation centers in the Philippines

The Signify Foundation and ASSIST light up communities displaced by natural disaster.

The Philippines regularly experiences typhoons, floods, earthquakes, landslides and other natural disasters. These risks are likely to intensify as the impact of climate change becomes more widely felt.

In this precarious environment, evacuation centers can be a lifeline for communities displaced when disaster strikes. Evacuation centers are often created from repurposed schools, community spaces and sports facilities, where a lack of reliable lighting can be an issue.

The Signify Foundation and Signify Philippines worked with the Asia Society for Social Improvement and Sustainable Transformation (ASSIST) to meet this need in 63 of these essential spaces. The centers were equipped with over 6,000 solar and electric floodlights, light tubes, and rechargeable light bulbs that can be used in emergencies and crises.

Solar lights were chosen for this project as they are resilient, easy to use, and long lasting. These lights can also operate with zero energy costs and in areas where electrical connections are damaged or impossible, bringing light and hope to people at vulnerable times of need.

"By spreading light, we will be able to create brighter lives for people, communities, and our planet. We believe that sustainable light can bring access to new opportunities, improve quality of life and health, unlock education and empowerment, and boost economic development."

Yvonne Pan, Country Leader
Signify Philippines

Smart, sustainable city living in China’s Hubei province

Large-scale smart pole project tackles greenhouse gas emissions while bringing digital transformation benefits.

Replacing conventional street lighting with energy-efficient LED is an effective way to reduce energy consumption and associated emissions. Modernizing public lighting in Huanggang Industrial Park and Jinmei Avenue in Huanggang City has helped Hubei Province reduce its carbon footprint and play its part in implementing China’s greenhouse gas emissions reduction program. And beyond its environmental benefits, the upgraded lighting uses the street lighting infrastructure spanning the city to improve citizens’ quality of life in multiple ways.

The city opted for Signify’s BrightSites smart poles, complemented with Philips BRP and BVP-series LED streetlights and Interact connected lighting system. This combination provides high quality and energy-efficient LED lighting, plus two-way communication on a cloud-based platform. The operations team can optimize street lighting performance and accurately measure energy usage in real time, all from a remote dashboard. This helps the team detect and act on any maintenance needs, and optimize usage to bring down costs and energy-related emissions.

All this power is wrapped in sleek, compact smart poles that blend seamlessly into the surroundings, maintaining the overall integrity and aesthetic of the urban environment. The scalable, modular design allows easy configuration for changing needs.

Even during daylight hours, the city’s lighting infrastructure is working behind the scenes. The BrightSites smart poles integrate security cameras, environmental sensors, Wi-Fi and other devices to collect city data and enable remote management and data analysis, all within a secure network. With this intelligent system in place, city planners can make informed decisions on issues like urban planning, safety and traffic management, creating a benchmark for future smart city projects. LED screens integrated within the smart poles can be used to display information for citizens such as the date and time, weather forecast, real-time temperature, or city information.

"Signify's smart street lighting solution not only creates a safer and more comfortable environment for staff to travel and work in Huanggang Industrial Park, but also significantly reduces lighting energy consumption and operating costs. It has laid a solid foundation for the digital transformation and upgrade of the Park and the city, and definitely will help boost urban sustainable development and new smart city construction."

Shiju Xie, Director of Engineering Department, Huanggang Rong Construction Investment Co.

BrightSites smart poles - Hubei province - China

4 Corporate performance

Key figures in millions of EUR unless otherwise stated

	2021	2022
Sales	6,860	7,514
Comparable sales growth [1]	3.8%	1.2%
Gross margin	2,671	2,732
as a % of sales	38.9%	36.4%
Income from operations	514	718
Financial income and expenses	(24)	(41)
Income tax expense	(83)	(145)
Net income	407	532
Adjusted gross margin [1]	2,702	2,806
Adjusted indirect costs [1]	(2,032)	(2,171)
Adjusted EBITA [1]	795	762
as a % of sales	11.6%	10.1%
Restructuring, acquisition and incidental items [1]	(159)	82
EBITA [1]	636	844
Basic earnings per share in EUR	3.18	4.18
Dividend per share in EUR [2]	1.45	1.50
Shareholders' equity	2,459	2,920
Net debt [1]	1,156	1,356
Working capital [1]	250	564
Net cash provided by operating activities	704	376
Free cash flow [1]	614	445
as a % of sales	8.9%	5.9%

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures.
2 2022 Dividend subject to approval by the 2023 Annual General Meeting of Shareholders.

4.1 Financial performance

4.1.1 Company performance

Throughout 2022, disruptions in Signify's markets continued to persist. Following the start of the war in Ukraine, Signify stopped investments and paused new business in Russia. Sales in China were held back by continued COVID-19 disruptions. The supply chain environment remained difficult but thanks to the company's actions, Signify was able to secure components and deliver to customers through temporarily higher inventories. Throughout the year, Signify also managed to offset inflation by raising its sales prices.

In 2022, Signify increased its sales by 9.5% to EUR 7,514 million, a comparable sales growth of 1.2%, amid a challenging external environment. The Adjusted EBITA margin declined by 150 basis points to 10.1%, while net income increased from EUR 407 million in 2021 to EUR 532 million in 2022. Net cash provided by operating activities was EUR 376 million and free cash flow was EUR 445 million.

The sales increase of 9.5% year on year includes a positive currency effect of 6.0%, driven by the appreciation of the USD, and a positive impact of 2.4% from the consolidation of Fluence and Pierlite. Comparable sales growth was 1.2%, driven by strong traction in the professional segment, partly offset by COVID-related disruptions in China and softness in the consumer segment. LED-based sales were 83% of Signify's total sales (2021: 83%).

The gross margin increased from EUR 2,671 million to EUR 2,732 million. The Adjusted gross margin increased from EUR 2,702 million to EUR 2,806 million. As a percentage of sales, the Adjusted gross margin decreased by 210 basis points to 37.3%, mainly impacted by an adverse currency impact as price increases largely offset input and energy cost inflation.

Indirect costs increased by EUR 54 million to EUR 2,222 million. Adjusted indirect costs increased by EUR 139 million to EUR 2,171 million. As a percentage of sales, Adjusted indirect costs decreased by 70 basis points to 28.9%, mainly driven by indirect cost savings.

EBITA increased by EUR 208 million to EUR 844 million, benefiting from a gain on the disposal of non-strategic real estate assets. Adjusted EBITA declined by EUR 33 million to EUR 762 million, as it excludes the gain on the disposal of non-strategic real estate assets and other adjusted items, such as restructuring expenses and acquisition-related charges. The Adjusted EBITA margin declined by 150 basis points to 10.1%, mainly due to an adverse currency impact and fixed cost under-absorption.

Income from operations increased from EUR 514 million to EUR 718 million in 2022. This included EUR 64 million of restructuring expenses, EUR 27 million of acquisition-related charges (mainly related to the acquisitions of Fluence and Pierlite), and a net benefit of EUR 173 million from incidental items. These incidental items are non-recurring items in nature and are related to, among other items, impairment and other non-cash charges related to operations in Russia and Ukraine, gains on the disposal of non-strategic real estate assets, separation, transformation, legal cases, environmental provisions for inactive sites and the effect of changes in discount rates on long-term provisions.

Net income increased by 31.0% to EUR 532 million. The increase was mainly driven by the gain on the disposal of non-strategic real estate assets, partly offset by a higher income tax expense, due to higher taxable income, and higher net financial expenses.

Compared with December 2021, working capital increased by EUR 314 million to EUR 564 million. This increase was mostly driven by lower payables, as payments for the 2021 inventory build-up were settled. Lower payables were partly offset by lower receivables and lower inventories. As a percentage of last twelve-month sales, working capital increased by 390 basis points to 7.5%. Including last twelve-month sales pro forma for Fluence and Pierlite, working capital increased by 380 basis points to 7.4%.

Net cash provided by operating activities decreased to EUR 376 million, mainly impacted by higher working capital. Net capital expenditures increased to a positive EUR 69 million, mainly due to proceeds from the disposal of non-strategic real estate assets. This resulted in a free cash flow of EUR 445 million or 5.9% of sales.

Shareholders' equity increased to EUR 2,920 million, reflecting the net income and currency translation results, offset by the dividend payment and purchases of treasury shares.

Net debt was EUR 1,356 million at year-end 2022, an increase of EUR 200 million compared with year-end 2021. The increase in net debt was mainly related to a EUR 174 million lower cash position. The cash position was mainly impacted by the acquisitions of Fluence and Pierlite, and the dividend payment, partly offset by free cash flow, which included cash proceeds from the disposal of non-strategic real estate assets. Gross debt remained relatively stable year on year.

At year-end 2022, Signify had a post-employment liability of EUR 327 million, compared with EUR 363 million at the end of 2021. The reduction is mostly related to benefit payments.

4.1.2 Performance by Division

Performance Digital Solutions

About Digital Solutions

Signify is the world leader in the professional lighting market for products such as LED and systems and services, with strong positions across key geographies. Professional products, systems and services are used in multiple market segments, including offices, commercial buildings, shops, hospitality venues, industry, agriculture 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 connected ecosystems.

Acquisitions

In the second quarter of the year, Signify completed the acquisitions of Fluence and Pierlite.

The acquisition of Fluence strengthens the global agriculture lighting growth platform and extends Signify's position in the attractive North American horticulture lighting market.

The acquisition of Pierlite strengthens Signify's position in the Australian and New Zealand lighting markets. It combines Pierlite's indoor portfolio with Signify's Philips brand of indoor and outdoor lighting portfolios, while adding Pierlite's access to the wholesale channel in the Pacific.

Key figures Digital Solutions
in millions of EUR unless otherwise stated

	2021	2022
Sales	3,524	4,231
Nominal sales growth	8.3%	20.1%
Comparable sales growth [1]	3.4%	7.8%
Income from operations (or EBIT)	205	256
EBITA [1]	318	374
Adjusted EBITA [1]	397	424
as a % of sales	11.3%	10.0%
Free cash flow [1, 2]	364	321
Number of employees (in FTEs)	15,006	13,930

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures.
2 Excluding non-allocated free cash flow items (e.g. tax, interest).

Strategic priorities

Digital Solutions focuses on strengthening its global professional lighting leadership position by further innovating in LED products, winning in connected lighting and unlocking the potential in businesses such as agriculture, solar, and 3D printing. At the same time, Digital Solutions leverages its scale to reduce the cost of production.

Market developments

Signify is the world leader in the professional lighting market; a large, growing and resilient market. Signify is well-positioned to benefit from powerful global trends, such as the shift to connected lighting, growing demand for food security, and climate action. The higher energy costs in 2022 led to an accelerated transition to energy-efficient lighting, which particularly benefited the professional LED lighting market.

The transition to connected lighting is occurring rapidly. Potential savings for customers based on total cost of ownership are significant. Signify’s Interact platform is designed to handle data collected from a growing number of connected light points, sensor devices and systems, and is tailored to specific subsegments.

In 2022, Signify's installed base of connected light points increased by 18 million to a total of 114 million across all segments, both professional and consumer. Slightly more than 5% of the installed lighting base is connected, showing that the connected lighting market continues to offer significant growth potential for Signify.

The agricultural lighting market is expected to grow, driven by increased food needs from population growth, increased customer preference for biological food grown closer to home, and increased focus on resource efficiency. Signify is well-positioned to capture growth from this growing market, as it is a world leader with a long heritage, unmatched know-how, and unique IP positions in light recipes for horticultural lighting. The acquisition of Fluence, in May 2022, has further strengthened Signify's position in this attractive market.

2022 Business highlights

- **Upgraded lighting solutions in all 69 Everlast Gyms across the UK:** the installation of Interact provides centralized lighting control for all the gyms. 3D-printed luminaires are designed and developed to suit the needs of each location. The installation cuts energy consumption by 80%.
- **Supplied horticultural lighting to Iceland's first vertical farm:** equipping the new facility of VAXA with Philips GreenPower LED production modules. The installation provides flexibility and precision to the crops' lighting environment.
- **Installed solar lighting in the Algarve:** Philips Sunstay solar luminaires replace the electricity grid with solar and thus improve energy efficiency. Motion sensors detect the presence of people, adjusting and reducing the light intensity as needed, for greater safety and comfort for residents.
- **Equipped schools with fast, secure and reliable LiFi connectivity:** Trulifi by Signify helps schools accelerate the digitalization in education. It provides students and staff with fast and reliable access to the latest online tools in a highly secure way. Successful installations have been done in schools, in among others, Belgium, Italy, Germany, the US and the Netherlands.
- **Installed BrightSites in the City of Tampere:** together with Edzcom, delivering wireless connectivity through the existing streetlight infrastructure. BrightSites provides super-fast wireless communication using high-quality LED streetlights. It removes the need to dig and lay extensive fiber connections. As a result, the installation requires less time and costs.
- **Helped NSG Group achieve their sustainability and smart factory goals:** NSG Group installed a suite of smart lighting solutions from Signify, including cutting edge connected lighting systems via Signify's Lighting-as-a-Service model, innovative 3D-printed luminaires, Trulifi and Interact. Signify upgraded the lighting at two UK sites and has ongoing work across several sites in the UK.

2022 Financial performance

Sales increased by 20.1% to EUR 4,231 million and included a positive currency effect of 7.3% and a positive impact of 5.0% from the acquisitions of Fluence and Pierlite. Comparable sales growth was 7.8% and was driven by growth across most markets, despite a slowdown in the fourth quarter of 2022.

Income from operations increased by 25.2% to EUR 256 million. Adjusted EBITA was EUR 424 million and excluded restructuring costs of EUR 15 million, acquisition-related charges of EUR 27 million, which were mainly related to the acquisitions of Fluence and Pierlite, and incidental items of EUR 8 million. The Adjusted EBITA margin declined by 130 basis points to 10.0%, mainly due to a negative currency impact, partly offset by operating leverage from higher sales volumes. Free cash flow declined by EUR 43 million year on year to EUR 321 million.

2023 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, and human-centric lighting. It maintains a strong financial profile with unmatched global scale and is well-positioned to capture growth from the stimulus programs in Europe and the US.

Performance Digital Products

About Digital Products

Digital Products sells a wide variety of LED lamps, namely spots, bulbs and tubes, and functional LED luminaires to the consumer and professional 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. The division develops and sells connected lighting systems and luminaires. It is the global market leader in connected home systems and a top-three player in selected home luminaires markets. 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 2022.

Philips Hue, introduced in 2012, is the market leader in connected lighting for consumers. The Philips Hue offering is continuously expanding. Recent examples of new innovations include the Philips Hue Festavia string lights, the Philips Hue Tap dial switch, the new Sunrise wake-up style and the new Demo mode.

WiZ Connected further extends the accessibility of consumer-connected lighting, as it provides consumers with a Wi-Fi based connected lighting ecosystem.

Signify's combined consumer connected lighting offer enables consumers to connect via Wi-Fi, Bluetooth or the Philips Hue bridge.

Key figures Digital Products
in millions of EUR unless otherwise stated

	2021	2022
Sales	2,452	2,469
Nominal sales growth	7.2%	0.7%
Comparable sales growth [1]	8.8%	(3.8)%
Income from operations (or EBIT)	316	265
EBITA [1]	323	272
Adjusted EBITA [1]	339	297
as a % of sales	13.8%	12.0%
Free cash flow [1, 2]	383	170
Number of employees (in FTEs)	14,643	14,264

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures.
2 Excluding non-allocated free cash flow items (e.g. tax, interest).

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 through growth, innovation and insourcing to Klite.

Market developments

Traditional LED lamps are continuing to be replaced by higher quality, connected and more sustainable LED lamps, such as the Philips Ultra Efficient LED bulb, 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, while the replacement need of lamp sockets reduces due to the longer lifetime of LEDs. In addition, consumers and professional customers pay attention to the energy efficiency of lighting products in their purchase decision.

Despite the slowdown of the consumer market in 2022, as demand was impacted by the inflationary environment, the company expects these long-term trends to continue for the foreseeable future. This provides a solid growth path with the ambition to drive market share gains, raising the energy efficiency bar through innovation 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 lighting distribution. The decline in the LED lamps market is expected to be replaced by integrated LED luminaires and connected lighting, which are both expected to grow. Legislation, banning conventional technologies, is expected to further boost LED adoption.

The LED electronics market is expected to grow, particularly driven by the shift to connected lighting and the LEDification of (industrial) specialty segments.

The consumer connected system markets are expected to continue to grow on the back of the increasing global penetration of the smart home.

2022 Business highlights

- **Introduced new Ultra Efficient A-Class products:** extending the Ultra Efficiency family with TLED, a downlight and outdoor luminaires with wall and pedestals. The Ultra Efficient A-Class range generates significant incremental energy savings versus regular LED.
- **Expanded the Philips Hue portfolio with new products and features**: launching among others the Philips Hue Perifo track lighting, the Philips Hue Festavia string lights, the Philips Hue Signe in oak with unique wake-up scenes, the Philips Hue Tap dial switch and the PC lightstrip. New effects and a Demo mode have been added to the Philips Hue app, and Philips Hue teamed up with CORSAIR in order to give an immersive gaming experience.
- **Offered a new way of automating WiZ lights:** SpaceSense is a new way to automate WiZ lights using Wi-Fi sensing technology. It uses Wi-Fi signals that are already present in a room to detect motion. No need for dedicated sensors and batteries.
- **Signify won the prestigious Gold IDEA 2022 design award:** Our sustainable 3D-printed Coastal Breeze pendant lamp won the prestigious Gold IDEA 2022 design award and received an honorable mention in Fast Company's Innovation by Design Awards. The collection is 3D printed using discarded fishing nets for cleaner oceans and a low carbon footprint.

2022 Financial performance

Sales increased by 0.7% to EUR 2,469 million, benefiting from a positive currency effect of 4.4%. Comparable sales declined by 3.8%, due to lower consumer sales and a Chinese market that was impacted by COVID-related disruptions.

Income from operations decreased to EUR 265 million. Restructuring costs were EUR 11 million and incidental items were EUR 14 million. Excluding these items, Adjusted EBITA was EUR 297 million. The Adjusted EBITA margin decreased by 180 basis points to 12.0%, mainly due to a negative impact from currency, lower volumes and an adverse sales mix. Free cash flow decreased to EUR 170 million.

2023 and beyond

The Digital Products division targets 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 offering of Philips Hue and WiZ, and by continuing to innovate in relevant consumer benefits, such as ambiance, well-being and security.

Digital Products will drive growth in LED electronics through the transition to smart lighting, leveraging its innovation leadership in connected components and through dedicated offers for specialty segments.

At the same time, the division aims to improve total profitability and its 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

Signify is the global market leader in the conventional lighting business. Conventional Products 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 lamp electronics for conventional lamps (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

	2021	2022
Sales	861	793
Nominal sales growth	(8.7)%	(7.9)%
Comparable sales growth [1]	(6.9)%	(12.6)%
Income from operations (or EBIT)	158	60
EBITA [1]	158	60
Adjusted EBITA [1]	161	116
as a % of sales	18.7%	14.6%
Free cash flow [1, 2]	136	56
Number of employees (in FTEs)	6,837	6,093

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures.
2 Excluding non-allocated free cash flow items (e.g. tax, interest).

Strategic priorities

While the overall conventional market continues to decline, Conventional Products' focus is on further increasing its leading market share in key segments and markets. This position supports the company's drive to lead the transition to connected LED products. The division continues to proactively manage its manufacturing footprint and reduce operational costs to optimize free cash flow.

Market developments

The conventional lamps market is expected to continue to decline in the coming years due to the ongoing adoption of LED lighting technologies and regulatory changes. In 2022, higher energy prices caused an accelerated conversion of customers, from conventional to LED lighting.

2022 Business highlights

Signify estimates that the conventional lighting market declined at a faster pace than its Conventional Products division in 2022 and thus the business continued to gain market share for the 6th consecutive year.

2022 Financial performance

Sales decreased by 7.9% to EUR 793 million and included a positive currency effect of 4.6%. Comparable sales declined by 12.6%, as lower volumes were partly offset by price increases.

Income from operations declined to EUR 60 million. Restructuring costs were EUR 34 million and incidental items were EUR 22 million. The incidental items included environmental provisions for inactive sites and legal charges. Excluding these impacts, the Adjusted EBITA margin decreased to 14.6%, as an adverse currency impact, lower fixed cost coverage and higher input costs were not fully offset by price increases and indirect cost savings.

2023 and beyond

Conventional Products will intensify its focus on optimizing market share, profit and cash, in line with its 'last company standing' strategy. It will do so by leveraging its scale, global footprint and lean manufacturing capabilities, while still responding to the remaining customer demand for conventional products.

Performance Other

"Other" represents amounts not allocated to the operating segments and includes costs related both to central R&D activities to drive innovation, and to Group enabling functions. Income from operations was EUR 137 million and EBITA was EUR 138 million. This includes restructuring costs of EUR 4 million and a net benefit of EUR 217 million from incidentals, which was mostly related to the gain on the disposal of non-strategic real estate assets. Adjusted EBITA was EUR (75) million, compared with EUR (102) million in 2021.

4.1.3 Performance by geographic cluster

In 2022, the professional segment recovered across most markets despite a slowdown in the fourth quarter, while demand in the consumer segment softened.

In Europe sales grew by 4.7% to EUR 2,230 million. Comparable sales grew by 3.9%. All European markets grew, except Eastern Europe, which was impacted by the war in Ukraine, and the United Kingdom.

In Americas, sales grew by 15.4% to EUR 2,978 million and included a strong impact from the appreciation of the USD. Comparable sales grew by 3.2%, with a solid contribution from Cooper Lighting.

In the Rest of the world, sales grew by 6.5% to EUR 1,709 million. Sales included a positive currency effect and a positive impact from the acquisition of Pierlite. Comparable sales declined by 1.5%, mainly due to China, the Middle East and South Korea.

Global businesses grew by 9.9% to EUR 597 million. Sales growth included a positive impact from the acquisition of Fluence and a positive currency effect. Comparable sales declined by 9.2%, mainly due to Klite, which was impacted by COVID-related disruptions in China.

Sales by geography in millions of EUR unless otherwise stated

	2021	2022	Change	CSG
Europe	2,130	2,230	4.7%	3.9%
Americas	2,581	2,978	15.4%	3.2%
Rest of the world [1]	1,606	1,709	6.5%	(1.5)%
Global businesses [2]	543	597	9.9%	(9.2)%
Total	**6,860**	**7,514**	**9.5%**	**1.2%**

1 Rest of the World includes Pierlite since April 29, 2022.
2 Global businesses includes Fluence since May 2, 2022.

4.2 Sustainability performance

Brighter Lives performance

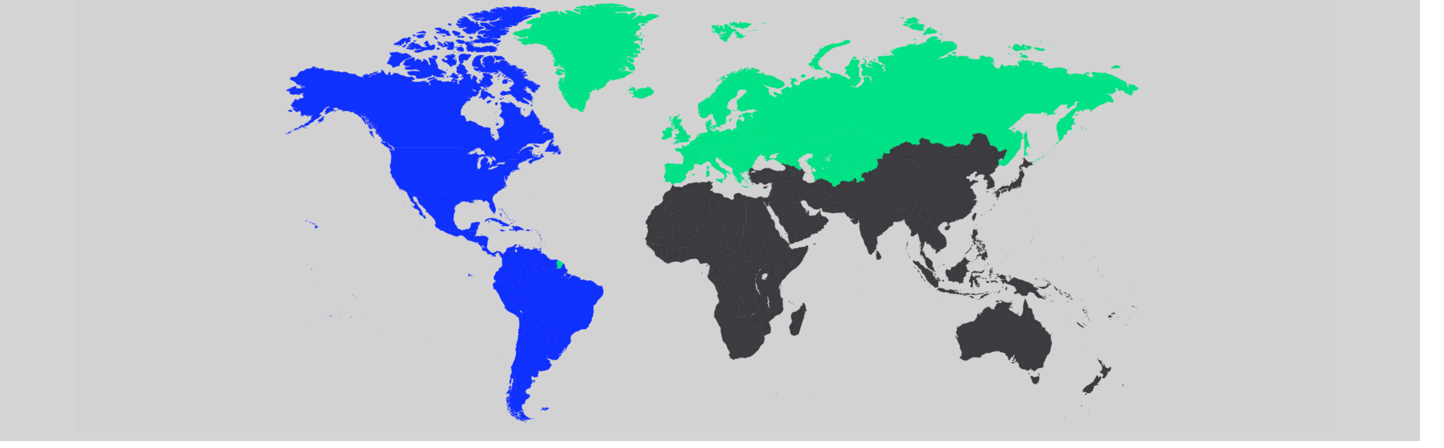
In 2022, our workforce decreased compared to 2021 to 34,619 FTEs (2021: 36,824 FTEs), with 28% of leadership roles held by women (2021: 25%). Our employee Net Promoter Score (NPS) was 36 (2021: 30). Meanwhile, 27% of our revenues came from products, systems and services contributing to Food availability, Safety & security or Health & well-being (2021: 25%-27%). Our safety performance indicator (TRC rate) was 0.16 per 100 FTEs (0.17 in 2021). We achieved a supplier performance rate of 94% (2021: 98%), and since 2017 we have lit the lives of 8.3 million people through the Signify Foundation.

Better World performance

We are on track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5°C scenario. At the end of 2022, 65% of our revenues contributed to climate action (2021: 61%-64%). In line with our ambition to contribute to a more circular economy, 29% of our revenues came from our circular portfolio (2021: 21%-25%). At the same time, we remained carbon neutral in our operations, sourced 100% renewable electricity and sent zero waste to landfill.

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

Sustainable performance per market



	FTEs		Manufacturing sites		% Women in leadership [1]		Operational CO_2e (kt)		Safety TRC rate	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Europe	**11,139**	**10,024**	**15**	**15**	**23%**	**29%**	**112**	**111**	**0.15**	**0.07**
Benelux	2,810	2,678	4	3	23%	28%	12	12	0.25	0.11
Eastern Europe	6,232	5,214	7	8	-%	-%	79	77	0.09	0.08
DACH (Germany, Austria, and Switzerland)	355	383	–	–	100%	100%	3	5	–	–
France	353	353	–	–	-%	50%	6	6	–	–
Iberia	641	629	2	2	-%	-%	6	5	0.47	–
Italy, Israel, and Greece	150	154	–	–	-%	-%	2	1	–	–
Nordics	245	285	1	1	-%	-%	2	3	–	–
UK and Ireland	352	328	1	1	n.a.	n.a.	2	2	–	–
Americas	**10,456**	**9,468**	**18**	**18**	**24%**	**25%**	**74**	**55**	**0.27**	**0.34**
Canada	695	643	2	2	-%	-%	6	11	–	0.24
Latin America	6,911	5,868	9	8	-%	-%	16	11	0.15	0.13
United States of America	2,849	2,957	7	8	27%	28%	52	33	0.60	0.83
Rest of the world	**15,229**	**15,128**	**15**	**13**	**32%**	**32%**	**104**	**86**	**0.11**	**0.07**
ASEAN	326	353	–	–	20%	20%	3	2	–	–
Indonesia	164	174	–	–	-%	-%	2	1	–	–
Greater China	10,823	10,172	10	9	50%	50%	37	37	0.11	0.07
India	2,929	3,262	1	1	-%	25%	48	36	0.04	–
Far East	80	75	–	–	n.a.	n.a.	2	1	–	–
Middle East, Turkey, Africa and Pakistan	753	742	3	2	-%	-%	8	6	0.30	0.85
Pacific	154	350	1	1	n.a.	-%	4	3	–	–

[1] Excludes Klite.

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, 2022, 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 1.50 per share for 2022. The dividend proposal will be subject to approval at the Annual General Meeting of Shareholders (AGM) to be held on May 16, 2023.

The balance sheet presented in this report, as part of the company financial statements for the period ended December 31, 2022, is before appropriation of the result for the financial year 2022.

4.4 Outlook

Signify continues to aim for growth, both organic and through selected acquisitions.

Given the volatility of the current macro environment, Signify does not provide a comparable sales growth guidance for 2023. The company will focus its efforts on improving its Adjusted EBITA margin and free cash flow.

Signify expects for 2023:
- An Adjusted EBITA margin in the range of 10.5-11.5%.
- Free cash flow between 6-8% of sales.

5 Three-year overview

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

	2020	2021	2022
Income statement			
Sales	6,502	6,860	7,514
Comparable sales growth [1]	(12.7)%	3.8%	1.2%
Nominal sales growth	4.1%	5.5%	9.5%
Sales of LED-based products (as % of sales)	80%	83%	83%
Gross margin	2,499	2,671	2,732
as a % of sales	38.4%	38.9%	36.4%
Income from operations (or EBIT)	416	514	718
Net income (loss)	335	407	532
Adjusted EBITA [1]	695	795	762
as a % of sales	10.7%	11.6%	10.1%
EBITA [1]	536	636	844
Net income (loss) attributable to shareholders	325	397	523
Earnings per share in EUR	2.58	3.18	4.18
Dividend per share in EUR [2]	1.40	1.45	1.50
Balance sheet			
Total assets	7,710	8,256	8,286
Shareholders' equity	2,196	2,459	2,920
Net debt [1]	1,275	1,156	1,356
Working capital [1]	313	250	564
Investments and cash flow			
Cash flow from operating activities	891	704	376
Net capital expenditure	(75)	(91)	69
Free cash flow [1]	817	614	445

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures.
2 2022 Dividend subject to approval by the 2023 Annual General Meeting of Shareholders.

Three-year sustainability summary

	2020	2021	2022
Sustainable innovation, as a % of adjusted research & development spend	85%	93%	90%
Brighter lives revenues, as a % of total sales [1]	–	25% - 27%	27%
Women in leadership, as a % of total leadership roles	23%	25%	28%
Employee Net Promoter Score	25	30	36
Total recordable cases, per 100 FTEs	0.22	0.17	0.16
Lost workday injuries, per 100 FTEs	0.17	0.12	0.09
Fatalities	-	-	-
Initial and continual supplier conformance audits, number of audits	73	92	79
Suppliers audits, performance rate, in %	99%	98%	94%
Lives lit, cumulative since 2017 (in million)	6	7.2	8.3
Cumulative carbon reduction over value chain, in million tonnes CO_2e [1]	–	On track [2]	On track [2]
Climate action revenues, as a % of total sales [1]	–	61% - 64%	65%
Operational gross carbon footprint, in kilotonnes CO_2e	260	290	252
Carbon neutral, as % of total operations	100%	100%	100%
Operational CO_2e intensity, in tonnes CO_2e per million euro sales per year	40	42	34
Operational energy consumption, in terajoules	3,728	3,630	3,811
Operational energy intensity, in terajoules per million euro sales	0.72	0.53	0.51
Renewable electricity, as a % of total electricity usage	100%	100%	100%
Circular revenues, as a % of total sales [1]	–	21% - 25%	29%
Total waste to landfill, in scope of commitment	<1%	<1%	<1%
ISO 14001 certification, as a % of all reporting organizations	82%	83%	70%
ISO 45001 certification, as a % of all reporting organizations	72%	60%	61%

1 New Brighter Lives, Better World 2025 sustainability KPIs reported for the first time in 2021.
2 Based on current level of availability and accuracy of data.

Governance

6 Board of Management

Signify N.V.'s Board of Management is 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.

Maria Letizia Mariani
Born 1960,
Italian
Chief Commercial Officer
Member of the Board of Management
since May 2020

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

7 Supervisory Board

The Supervisory Board supervises the policies, management and 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 2022 see chapter 8, Supervisory Board report, and chapter 9, Remuneration 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.

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; second term expires in 2025

Former CEO of Imtech and VolkerWessels, and former member of the Executive Board of Reed Elsevier (later: RELX). Currently Chair of the Supervisory Board of Nederlandse Spoorwegen (Dutch Railways) and KPN.

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 the Power Transmission and Distribution Group of Siemens, former CFO of GfK SE. Currently member of the Supervisory Board of LANXESS and Compagnie de Saint-Gobain, and member of the German Monopolies Commission.

[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.

Supervisory Board

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 of the industry division of Robert Bosch and Chief Technology Officer of the Customer Services Division of Siemens. Currently Head of Intelligent Industry Northern and Central Europe at Capgemini.

Bram Schot
Born 1961,
Dutch

Committee(s) [A,D]
Member of the Supervisory Board since 2022; first term expires 2026

Former CEO of Audi Group, member of the Management Board of Volkswagen Group and Vice-Chair of Porsche Holding Salzburg. Currently non-executive member of the Board of Directors at Shell, senior advisor to different companies, including Carlyle Group, and Professor Leadership & Transformation at Bocconi University, Italy.

[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.

8 Supervisory Board report

Letter from the Chair

I am pleased to present our Supervisory Board report for 2022.

After two years marked by COVID-19, 2022 was yet another challenging year. The war in Ukraine, geopolitical tensions, the continued COVID-related disruptions, rising energy prices and inflation all added to a difficult market and geopolitical environment. The impact was felt by our customers and our people, and impacted business performance. At the same time, the rising energy prices added to a broad consensus on an urgent need to reducing energy use. This revalidated the company's sustainability agenda, which has been an inherent part of Signify's strategy for many years.

The business challenges that we faced in 2022 were discussed in a transparent manner. Throughout the year there has been an open dialogue between management and the Supervisory Board on how to address these challenges and multiple other matters that are important for the company, its business and its stakeholders.

As a Supervisory Board, we have been actively involved in refining the strategic direction of Signify throughout 2022. We have observed great agility in how the company addressed the market and geopolitical challenges in 2022, and has been preparing for the period ahead.

We look back on a year with substantial challenges that were well managed, and look ahead with confidence.

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 2022.

We welcomed Bram Schot, who was appointed as a member of our Supervisory Board by the Annual General Meeting of Shareholders in May 2022. At the same time, Eelco Blok stepped down from our Board at the end of his four-year term. The Supervisory Board currently consists of six independent members. In December, we proposed the appointment of Sophie Bechu as a Supervisory Board member, which will be on the agenda of the Annual General Meeting of Shareholders 2023.

In 2022, the Supervisory Board had four committees that cover key areas in greater detail: an Audit Committee, a Corporate Governance and Nomination & Selection Committee, a Remuneration Committee, and a Digital Committee. The charters of each of the committees are published on the company’s website.

8.2 Key discussion topics and meetings in 2022

Meetings and information

The Supervisory Board held eight regular meetings in 2022. The Board was pleased that in 2022, it could organize most of its meetings in person again, after having had two years of meetings primarily via video conference due to COVID-19.

On average, the attendance rate of the Supervisory Board meetings was 98%. The attendance record matrix in this chapter 8.2 gives details for both the Supervisory Board and committee meetings.

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. From time to time, Supervisory Board members wanted to be informed on, or discuss, a specific topic. This was then followed-up by a member of the Board of Management or senior management.

There were no apparent conflicts of interest of material significance in 2022, which would have called for one of the members not to participate in the decision-making.

Supervisory Board and Committee Attendance Record

	Supervisory Board in person meetings	Supervisory Board calls	Audit Committee	Nomination Committee	Remuneration Committee	Digital Committee
TOTAL MEETINGS	6	2	6	6	4	4
Arthur van der Poel	6 / 6	2 / 2		6 / 6	4 / 4	
Gerard Van de Aast [1]	6 / 6	2 / 2	6 / 6		4 / 4	
Eelco Blok [2]	1 / 2	2 / 2	3 / 3			1 / 1
Pamela Knapp	6 / 6	2 / 2	6 / 6		2 / 4	
Rita Lane	6 / 6	2 / 2		6 / 6		4 / 4
Frank Lubnau	6 / 6	2 / 2		6 / 6		4 / 4
Bram Schot [3]	6 / 6	2 / 2	2 / 3			1 / 3
Total attendance [4]	97%	100%	94%	100%	83%	83%

1 Mr. Van de Aast attended one of the in person meetings via video conference.
2 Mr. Blok stepped down from the Supervisory Board on May 17, 2022.
3 Mr. Schot was appointed as member of the Supervisory Board on May 17, 2022. As of January, he joined the Supervisory Board meetings as an observer, which is also included in the table. Mr. Schot became a member of committees after his appointment.
4 On average, the attendance rate of the Supervisory Board in person meetings and calls combined was 98%.

In 2022, the Supervisory Board discussed a wide range of topics throughout the year. Key topics and activities included the following:

- **Strategy Review**
  In September 2022, we had our annual Strategy Review meeting, dedicated to discussing the company's strategy towards sustainable long-term value creation. As part of the session, we discussed macro-environment trends and changes, the impact on the lighting market forecast and competitive trends. We looked at the company's financial and sustainability performance, customer experience, and performance on our 2022 strategic initiatives. We discussed the strategic implications of the current macro-environment, enterprise risks, and how we will address these as part of the overall company's 5 Frontiers strategy and strategic initiatives for 2023.

  As part of the Strategy Review in September, we also had three strategic deep dives on the impact of geopolitical conditions on the supply chain, human capital implications of digital transformation and an assessment of the growth initiatives and tech bets portfolio performance. Each of these deep dives was prepared with guidance and input of a Supervisory Board member, benefiting from their knowledge and experience in the respective domains.

  The Strategy Review was followed by a strategic plan discussion in December in which management presented the 2023-2025 strategic plan, including financial objectives. We also discussed and approved the company's financial targets for 2023 within the context of its 2023 operating plan.

  In addition to these meetings dedicated to the company's strategy, management updated us on a quarterly basis on the progress made on the company's strategic initiatives for 2022. Throughout the year, we also discussed the market trends, risks and opportunities as well as the strategy, as part of the market and division updates.

  As a follow-up to last year's Supervisory Board performance evaluation, we introduced quarterly discussions on trends and developments in the competitive landscape and deep dives on the company's competitors. We found these discussions very useful and will continue having these in 2023.

A discussion of the company's digital strategy is included under the activities of the Supervisory Board Digital Committee below.

Both on a quarterly basis and as part of the division and market updates, we discussed pending and potential acquisitions and divestments contributing to the company's strategy execution. We also addressed the integration of recent acquisitions, including Fluence and Pierlite.

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.

- **Culture**
  As the Supervisory Board, we have found the company's culture strong, with great importance being attached to diversity, equity & inclusion.

  As part of our standing meeting agenda, we had our annual discussion dedicated to the company's culture. In this discussion, we review the alignment of the company's purpose, its values, sustainability and diversity, equity & inclusion with how it is embedded and fostered in the company's strategy and organization. This year, we focused on diversity, equity & inclusion and performance mindset.

- **Market and geopolitical environment & business performance**
  The year 2022 brought multiple market disruptions and geopolitical tensions, with impact for our customers, our people, our business and society at large. As a Supervisory Board we closely monitored these developments, how these impacted the company (both risks and opportunities), and how we addressed these.

  Each quarter, we discussed the company’s business performance in detail. These discussions included updates on the company’s financial performance on key financial metrics and factors impacting performance and forecasts, both on a global and on a division and market basis.

  Among the factors impacting performance were the increased energy prices and inflation, affecting both the company's costs and customer demand. This effect was particularly felt by the company's conventional business as the energy prices further incentivized customers to move to LED and simultaneously product manufacturing prices increased. We discussed strategic initiatives and focused on managing decline and profitability in this business.

  Also in 2022, we continued to review the impact of COVID-19 and supply chain disruptions to our people and operations. Management updated us on developments on a quarterly basis. This was in addition to the annual review of the company's footprint. We also discussed standardization initiatives, the use of 3D printing and component redesign, enhancing supply chain resilience and agility, and reducing potential waste.

- **Sustainability**
  Sustainability is an inherent part of the company's 5 Frontiers strategy. In pursuance thereof, the company developed a five-year sustainability program: Brighter Lives, Better World 2025. Throughout the year, we were updated on the company’s progress on this program, and the company's strategic initiatives for 2022 to drive growth for sustainability.

  We also had a dedicated sustainability update, as part of which we reviewed the 2022 materiality assessment that is discussed in more detail in chapter 16, Sustainability statements, sub-section 16.1.1, Definition of Signify's strategic focus. The Supervisory Board also discussed with management the company's ESG reporting, both under the company's sustainability program and under the EU Taxonomy.

- **Capital allocation, financial reporting and investor relations**
  We reviewed the capital allocation policy of the company. In this context we also discussed expectations related to cash generation, dividend distributions, investments in innovation and M&A, share repurchases to cover obligations arising from Signify’s long-term incentive and other employee share plans, debt profile as well as credit ratings.

  We discussed the quarterly results and the (semi-) annual financial statements for 2022, including related reports from the internal and external auditors and non-financial information, and related press releases.

  After the publication of each quarterly results, the Investor Relations department updated us on the market reaction and analyst views. From time to time throughout the year, the Investor Relations department updated us on feedback from and interactions with investors and analysts, developments in the company’s share price and analyst recommendations, as well as updates in the shareholder base.

- **On-site visits and innovation**
  Since our acquisition of Cooper Lighting in 2020, the US market has become increasingly important for Signify. Whereas the Supervisory Board had initially planned to visit Cooper Lighting in the fall of 2020, COVID-19 made such a visit impossible in 2020 and in 2021. In September 2022, the Supervisory Board made a two-day visit to the company's North American teams in the company's offices in Bridgewater (NJ) and Peachtree City (GA). Presentations were given on various topics, including the company's North America performance, strategy, customers, culture and talent. In a tour, the US product development teams presented products and innovations. The Supervisory Board also participated in a round table and dinner with distributors, contractors and specifiers, and had multiple interactions with the US teams.

  In October, the Supervisory Board visited a horticultural grower in the Netherlands, where Signify horticulture lamps are installed, and had discussions about the customer's business and experiences as well as recent trends in the industry.

As part of the December meeting, we discussed the company's innovation strategy. At the High Tech Campus in Eindhoven, the company's innovation department gave demonstrations of recent and future technologies being developed. Via video conference consoles, members of the innovation teams from other regions in the world also participated in these demonstrations.

- **Risk management and internal controls**
  We discussed the company's risk management and internal controls, including any significant changes and improvements thereto.

  As part of the annual Strategy Review session in September, we discussed the key enterprise risks identified, and how the company addresses these. Via the Audit Committee, the Supervisory Board also received a quarterly update of the enterprise risk management self-assessment on key risks identified.

  The Supervisory Board had a dedicated session on the cybersecurity risk assessment together with the strategy and initiatives to address these risks. This was complemented by a quarterly cyber security update.

  For more information on the company's key risks, risk management and the company's business control framework, see chapter 12, Risk factors and risk management.

- **Talent management**
  The company's Human Resources department presented its annual update on talent management, succession planning of employees who are in key positions, organizational design, employee Net Promoter Score (NPS), gender and age diversity and focus areas for the coming period. As one of the strategic deep dives of the September Strategy Review, we addressed the human resources implications of the digital transformation of the company.

8.3 Key activities of the Supervisory Board committees in 2022

8.3.1 Audit Committee

Our Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities for, amongs 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.

Pamela Knapp is the Chair of the Audit Committee. Eelco Blok was a member of this committee until he stepped down from our Supervisory Board in May 2022. Bram Schot succeeded him as a member of the committee as of that time. Gerard van de Aast has been a member of the Audit Committee throughout the year.

The Audit Committee met six times in 2022, upon the conclusion of each quarter, in December (hard close) and in a combined meeting of the Supervisory Board and the Audit Committee in February to review and approve the company's annual report. The 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/General Secretary 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.

As part of its standing agenda, the Audit Committee reviewed and discussed:

- The company's financial statements and related press releases;
- Developments in larger legal cases together with any related provisions as well as material investigations;
- Internal audits performed;
- The annual audit plan and programs for each quarter, the internal audit charter as well as the functioning and effectiveness of the internal audit function. The committee approved the internal audit plan and internal audit charter;
- The company's annual integrity report over the past year, and key observations. As part hereof, attention was paid to fraud-related risks;
- The enterprise risk management self-assessments, together with the risk management framework and external risk trend;
- The company's business controls and risk management, and any significant changes and improvements thereto, and the effectiveness of internal control over financial reporting.

In 2022, the Audit Committee also dedicated time to the following matters:

- **Sustainability reporting**
  The committee discussed reporting under the company's Brighter Lives Better World 2025 program and under the EU taxonomy, and adaptations to the company's reporting system and processes to adequately cover these in its 2022 reporting and beyond. For more information, see chapter 16, Sustainability statements, section 16.5, Brighter Lives.

- **Deep dives on selected topics**
  Deep dives on a selection of topics were presented by management and discussed with the Audit Committee, including on master data management, cash and inventory.

- **Proposal external auditor 2023-2025**
  In 2016, Ernst & Young Accountants LLP was appointed as the company's external auditor for a period of four years, followed by a re-appointment for the period 2020-2022. In 2022, the committee and management conducted an assessment of the performance of the external auditor. Following that assessment, the committee

recommended and the Supervisory Board decided to propose the re-appointment of Ernst & Young Accountants LLP for another period, this time of three years (2023-2025). This proposed re-appointment will be on the agenda of the upcoming 2023 Annual General Meeting of Shareholders. More information will be included in the agenda and explanatory notes thereto.

- **Interaction with external auditor and audit results reports**
  The reporting from the company's external auditor Ernst & Young Accountants LLP relates to the audit plan and the audit results reports, which are shared with management and the Audit Committee. In the reports, the external auditor highlights developments that are relevant for their key audit matters, and provides details on their audit approach, procedures and observations in relation thereto. In the reports, the external auditor also highlights other areas, developments or audit procedures performed, and their observations and considerations on management judgement and estimates applied in the preparation of the financial statements.

  In the Audit Committee meetings, the external auditor discussed their reports with management and the committee. The discussions with the external auditors also covered matters related to accounting policies, financial risks, compliance with accounting standards and compliance with (financial) legal requirements. Other areas of the Audit Committee review included the proposed external audit scope, approach, fees and the independence of the external auditor. The committee 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 chapter 15, Signify N.V. financial statements, note B, Audit fees.

  The audit by the external auditor, including a discussion of the key audit matters, is discussed in the auditor's report which is included in chapter 17, Combined independent auditor's report.

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 arranging 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). The performance evaluation of the Board of Management and the Supervisory Board is led by the committee.

Arthur van der Poel (Chair), Rita Lane and Frank Lubnau are the members of this committee.

The committee met six times in 2022 and reported its findings to the full Supervisory Board after each meeting. The CEO and Chief Legal Officer/General Secretary 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 2022, the committee specifically dedicated time to the following matters:

- **Composition Board of Management**
  Following a review and assessment by the committee, the Supervisory Board proposed to expand the Board of Management with the appointment of the company's Digital Solutions division leader, Harshavardhan (Harsh) Chitale. The Supervisory Board recommends this internal promotion to the Board of Management in view of the track record of Harsh Chitale in many different roles within the company, notably as leader of the company's largest division, and expectation that his experience and competencies will further strengthen the Board of Management in refining our strategy and driving its execution. This proposed appointment will be on the agenda of the Annual General Meeting of Shareholders (AGM) to be held on May 16, 2023.

- **Composition Supervisory Board and onboarding**
  Following the selection process led by the committee, Bram Schot was appointed as Supervisory Board member in May 2022. He followed a tailor-made immersion program to get to know the company's industry, business, strategy and management as well as our cyber security training for Supervisory Board members.

  In 2022, the committee prepared and led an assessment and selection process that resulted in the proposal by the Supervisory Board to expand the Supervisory Board by the appointment Sophie Bechu at the AGM to be held on May 16, 2023. The Supervisory Board recommends the appointment of Sophie Bechu in view of her wealth of experience in operations and a strong connection to the US market, which since our acquisition of Cooper Lighting in 2020 has become increasingly important for the company. In each selection process, the committee takes account of the desired board profile, including its diversity policy and expertise and experience as well as the desired board size.

- **Board size and profile, including diversity**
  We believe 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. Our boards’ profile and the Supervisory Board skills and expertise matrix reflect the areas that the committee and Supervisory Board regard to be most relevant to address the transition in the lighting industry and the execution of the company's 5 Frontiers strategy.

In 2022, the committee reviewed the matrix categories. In view of the continued importance of the supply chain, the committee recommended and the Supervisory Board resolved to add "Operations/supply chain" as a category to the matrix. The biographies of the Supervisory Board members published on the company's website complement the information included in the matrix.

The committee also reviewed the Boards profile, and upon the committee's recommendation the Supervisory Board updated our diversity objectives that are part thereof. For the Supervisory Board members, and in line with the Dutch law requirement as of 2022, we aim that at least one-third are men and at least one-third are women. For the Board of Management members, we aim at having at least one man and at least one woman for a board of three members, and at least two men and at least two women for a board of five members. Both of our Boards meet these objectives. For more details on the profile, including the diversity of the Board of Management and Supervisory Board, please refer to chapter 10, Corporate governance. For more information on diversity & inclusion in the company, please refer to chapter 16, Sustainability statements, section 16.3, Brighter Lives.

Supervisory Board skills and expertise matrix
Fields in which the members of the Supervisory Board have a particular skill or expertise

Skill/experience item	Arthur van der Poel	Gerard van de Aast	Pamela Knapp	Rita Lane	Frank Lubnau	Bram Schot
CEO role	✓	✓				✓
Industrial experience	✓	✓	✓	✓	✓	✓
Finance, expert level		✓	✓			
Sustainability	✓		✓			✓
Projects/infrastructure		✓				✓
Business transformation	✓	✓	✓		✓	✓
Digital business processes		✓		✓	✓	
IT, cybersecurity		✓	✓		✓	
Technology/innovation	✓			✓	✓	✓
Operations/Supply chain				✓		
Diversity elements: Gender identity, age, nationality	Male 74 Dutch	Male 65 Dutch	Female 64 German	Female 60 American	Male 53 German	Male 61 Dutch

The composition of the Supervisory Board was also addressed in the annual performance evaluation (see below). The Supervisory Board observed that a board of about seven members is a good size for the company, whereby it was felt that it should add a member with US market expertise, which is being addressed by proposing Sophie Bechu to be appointed to the board. The Supervisory Board found that it has the right diversity mix.

The committee will continue to periodically assess its size and composition, including the desired diversity, and initiate searches where indicated.

- **ESG committee**
  We noted the suggestion from some stakeholders to companies in general to consider establishing an ESG committee from among their supervisory boards to support progress on sustainability. This topic was also addressed in our annual performance evaluation (see below). Sustainability has been an integral part of Signify's strategy for many years. The company also publishes extensive sustainability statements. The full Supervisory Board is and will continue to be engaged in the strategy, including sustainability. We decided that the review of the sustainability reporting resides best in the Audit Committee. In view of this, we see no need to establish an ESG committee from among the Supervisory Board.

8.3.3 Remuneration Committee

The Remuneration Committee assists the Supervisory Board by, amongs 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 to the variable compensation of members of the Board of Management and the review of their performance.

Gerard van de Aast (Chair), Pamela Knapp and Arthur van der Poel are the members of this committee. Currently, no member of the Remuneration Committee is a member of the executive management board of another listed company.

In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert.

The Remuneration Committee met four times in 2022 and reported its findings to the full Supervisory Board after each meeting. The CEO, the Chief HR Officer, the Head of Rewards and the Chief Legal Officer/General

Secretary generally attend the committee's meetings. 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 previous periods, target setting for variable remuneration for the upcoming periods, base salary levels for the Board of Management, scenario analyses, and disclosure in the remuneration report.

No changes were proposed to the remuneration policy for the Board of Management nor for the Supervisory Board in 2022. The committee reflected on the AGM advisory vote on the 2021 remuneration report, and disclosure in the remuneration report going forward. The committee Chair engaged with key stakeholders, such as shareholders, shareholder representative groups and the Dutch Central Works Council, to obtain feedback on executive remuneration in general, insights on the AGM advisory vote and attention points for the 2022 remuneration report. This feedback was shared with the committee and the Supervisory Board. In the next remuneration policy review, the feedback received from shareholders will be addressed.

Also refer to chapter 9, Remuneration report, for further information on the remuneration policies for the Board of Management and the Supervisory Board and their implementation in 2022 as well as reflections on the 2022 AGM advisory vote.

8.3.4 Digital Committee

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 is the Chair of the Digital Committee. Eelco Blok was a member of this committee until he stepped down from our Supervisory Board in May 2022. Bram Schot succeeded him as a member of the committee as of that time. Rita Lane has been a member of the Digital Committee throughout the year.

The Digital Committee met four times in 2022 and reported its findings to the full Supervisory Board after each meeting. The committee also had additional working sessions and deep dives discussing particular topics and projects. The CFO, the Chief Digital and Information Officer (CDIO) and the Chief Legal Officer/General Secretary generally attend the committee meetings. The committee Chair has regular contact with the CFO and the CDIO.

The company's digital roadmap has three focus areas: digitalizing customer interfaces, digitalizing processes and digitalizing offers. In 2022, management discussed with the committee how the company further strengthened its operations, further improved its digital governance, developed key capabilities to accelerate digitalization and hired additional digital talent. The committee discussed in more detail some key projects through which the company executes its digital strategy. As part of the standing agenda, the committee reviewed the strategic digital priorities for the year, and progress on key digital projects, initiatives and enablers.

8.4 Performance evaluation

We evaluated the performance of the Board of Management and of the Supervisory Board and its committees in 2022.

The Board of Management evaluated their team and personal targets performance, and shared their views with the Chair and Chair of the Remuneration Committee, which were 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. Building on feedback provided in 2021, together with relevant developments in 2022, we prepared an updated questionnaire. The questionnaire addressed, among other matters, the focus of discussions during our meetings, the depth and quality of discussions on key topics, 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 2022, as well as the desired focus in the future.

The questionnaire was completed by members of the Supervisory Board and the Board of Management as well as the Chief Legal Officer/General Secretary to the boards. 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 took 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 2022, the Supervisory Board experienced that the engagement among the board is high and that we operated as a good, critical and constructive team. The evaluation showed consensus on the strategy process being improved by the involvement of Supervisory Board members in the preparation of deep dives that were part of the September Strategy Review. The evaluation also brought learnings on and improvements in the way we operate, such as how we can best track the execution of the strategy at the Supervisory Board level. On sustainability, we agreed that the Supervisory Board oversight on sustainability strategy remains a topic for the full Supervisory Board, whereas sustainability reporting best resides with the Audit Committee. Especially in view of the new and upcoming regulation, some of our members will undergo an ESG training in 2023, particularly focusing on reporting. Given the current geopolitical and market conditions, this will also remain a focus of our attention in 2023.

8.5 Financial statements 2022 and dividend

Signify's Consolidated and Company financial statements for 2022, 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 2022.

We likewise recommend to shareholders that they adopt the proposal by the Board of Management to declare a cash dividend of EUR 1.50 per ordinary share from the 2022 net income.

8.6 Appreciation

The year 2022 was once again not an easy year. We would like to thank the Board of Management and all Signify employees for their relentless commitment, ability to adapt to the challenging reality, and great work throughout the year.

February 28, 2023

Supervisory Board
Arthur van der Poel
Gerard van de Aast
Pamela Knapp
Rita Lane
Frank Lubnau
Bram Schot

9 Remuneration report

9.1 Letter from the Remuneration Committee Chair

On behalf of the Supervisory Board, I am pleased to present the 2022 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 2022 is discussed in parts 9.2 and 9.3 of this remuneration report.

Over the course of 2022 we continued our engagement with key stakeholders, such as shareholders, shareholder representative groups and the Dutch Central 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 valuable feedback, particularly on the strong link that exists between Signify's ESG metrics and remuneration for the Board of Management via the company's long-term incentive plan.

Signify's performance in 2022

A year that was expected to result in the stabilization of the world post COVID and a return to growth for Signify, was not what ultimately transpired. The dual specter of war and inflation completely changed the dynamic of 2022 and ultimately how Signify had to adapt and manage these dual crises. It was therefore very much a year of adaptation for the company.

The Chinese market was impacted by COVID-related disruptions and Europe was impacted by the war in Ukraine and the resulting energy challenges. Inflation, at a level not seen in decades, impacted the global environment. As a result, the traction that was expected to take hold early in 2022 did not materialize. For Signify, margins and cash were impacted by inflation and supply chain disruptions. In addition, a decline in the consumer market and an adverse currency impact was experienced. As a result of these dynamics, the financial performance was negatively impacted.

Strategically the company continued to stay the course and drive toward a differentiated position in the market. The relevance of Signify products and solutions was further heightened in 2022, as energy efficiency became even more urgent. This strengthened the competitive position as the company executed on the strategic priorities. New innovations and sustainable lighting solutions continued to be brought to customers. The Supervisory Board is pleased that the connected lighting business and growth platforms grew to reach almost EUR 2 billion of sales.

Signify continues to lead the way in sustainability with the Brighter Lives, Better World 2025 program and has made significant progress toward the 2025 goals. The ambition to reduce carbon over the value chain is on track resulting from a shift in product mix, and energy-efficient and connected LED products. Circular and Brighter lives revenues are on track to meet the ambitious five-year targets. Doubling the percentage of women in senior leadership remains on track for the five-year ambition, despite being off track for the more challenging target set for the 2022 expectation of progress to this goal.

The Ukrainian crises impacted customers and the business, but importantly also Signify employees. The Supervisory Board was very proud of how Signify team members, throughout the company, reacted in line with the company values, particularly Greater Together, to support Signify colleagues and their families. Finally, Signify products and solutions were utilized to support Ukraine, while the Signify Foundation provided humanitarian support to the country.

Stakeholder engagement

The 2021 remuneration report received a 70.94% advisory vote from the shareholders, at the Annual General Meeting of Shareholders, held on May 17, 2022. To better understand shareholder feedback and concerns that appear from the relatively large advisory vote against the remuneration report, we engaged with key shareholders during the year. We understood that the rationale behind this vote outcome was primarily related to the full vesting of long-term incentives after retirement, and the disclosure of such, which was not viewed as best practice, a desire for greater disclosure on the annual incentive, and an incorrect understanding of the salary increase provided to Board of Management members in 2021 resulting from some investors using the temporary voluntary reduction of salary taken by the Board of Management in 2020 as the base line salary.

These engagements to further understand stakeholder feedback on the Signify Remuneration Report 2021, included shareholders representing 18% of shares outstanding. In addition, engagements with other stakeholders included shareholder representative groups as well as the Dutch Central Works Council.

We experienced those conversations as very constructive and they have led to improvements in our Remuneration Report. The following key points came from those interactions:

- Very positive feedback on the link of strategy, ESG metrics, long-term incentives and related disclosure.
- Expectation that for retirees a pro-rata application of long-term incentives would apply or disclosure of treatment of long-term incentives at retirement.
- Expectation of increasing disclosure, particularly on financial metrics in short-term incentives; and
- Expectation that should there be any discretion used by the Supervisory Board with respect to remuneration, the rationale would be clearly detailed in the report.

With respect to the second item, the vesting of long-term incentives at retirement, this feedback will be addressed in the next Remuneration Policy review. With respect to the third and fourth items, the outcomes on both the annual incentive plan and the long-term incentive plan reflect the actual performance despite the significant challenges presented over 2022. No discretion was applied on those outcomes, nor were targets adjusted during 2022, and additional information on the annual incentive has been provided to increase disclosure.

Finally, the link between the Signify strategy, ESG metrics and remuneration overall was a key component of all stakeholder conversations. Signify was identified as being a leader in its approach to sustainability, the degree of reporting on these metrics and the related link to the long-term incentive plan.

We are pleased with this engagement with stakeholders and we use this ongoing dialogue to continue to evolve the 2022 report in direct response to this feedback. We trust that stakeholders 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 long-term value through financial, environmental and social resources. Our focus on environment and the 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 stakeholders. 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, Creating long-term value, section 3.3, Our value created.

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. The effectuation of these policies in 2022 is discussed in parts 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, while taking the interest of all the 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 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.

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

	Compensation Element	Policy Summary	Application in 2022 Summary
Total direct compensation	Base salary	• 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.	Base salary as follows: E.H.E. Rondolat € 947,330 F.J. van Engelen Sousa € 619,855 M.L. Mariani € 619,855
	Annual cash incentive	CEO: On-target: 80% Maximum: 160% of base salary Other BoM members: On-target: 60% Maximum: 120% 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.	Measures: • Comparable sales growth (30%) • Adjusted EBITA (30%) • Free cash flow (20%) • Team/individual (20%) Actual payout: In % of target: E.H.E. Rondolat 12% F.J. van Engelen Sousa 12% M.L. Mariani 12%
	Long-term equity based incentive	CEO: Annual on-target grant value: 100% of base salary Other BoM members: Annual on-target grant value: 80% 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 and continued employment. • 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%). • Payout 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.	2022 grant: E.H.E. Rondolat 23,256 PSUs F.J. van Engelen Sousa 12,172 PSUs M.L. Mariani 12,172 PSUs • Holding requirement (part 9.2.7 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 five years from grant date)

	Compensation Element	Policy Summary	Application in 2022 Summary	
Other compensation	Pension benefit	• Collective defined contribution plan up to the maximum pensionable salary (2022: EUR 114,866). • 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 F.J. van Engelen Sousa M.L. Mariani	Accumulated annual pension as of Dec 31, 2022: € 44,672 € 4,379 € 4,528
	Additional benefits	Additional benefits, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements. Car allowance gross per annum (or lease car): Entertainment expense allowance net per annum: Representation allowance net per annum: Relocation allowances:	CEO: € 36,960 € 23,920 € 6,800 F.J. van Engelen Sousa (per contractual agreement related to family relocation): Allowance international school (net):	Other BoM members: € 31,560 € 6,000 € 12,500

The table below reflects the total remuneration as well as the remuneration costs of each of the members of the Board of Management in 2022.

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

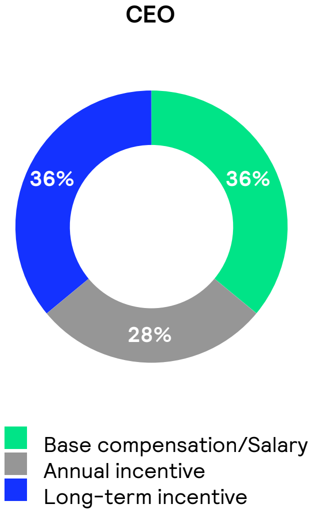
	Base compensation/ salary	Annual incentive [1]	Performance shares costs [2]	Restricted share rights costs [3]	Pension allowances	Pension scheme costs [4]	Other compensation [5]	Total remuneration costs
2022								
E.H.E. Rondolat	947,330	90,944	705,530	–	240,492	28,133	31,725	2,044,154
F.J. van Engelen Sousa	619,855	44,630	179,199	96,799	126,247	28,133	29,404	1,124,267
M.L. Mariani	619,855	44,630	349,509	–	126,247	28,133	42,262	1,210,636
	2,187,040	**180,204**	**1,234,238**	**96,799**	**492,986**	**84,399**	**103,391**	**4,379,057**
2021								
E.H.E. Rondolat	919,737	819,670	1,156,993	–	266,639	27,462	37,590	3,228,091
F.J. van Engelen Sousa	601,800	402,243	115,445	162,072	122,403	27,462	41,434	1,472,859
M.L. Mariani	601,800	402,243	528,117	–	122,403	27,462	45,261	1,727,286
	2,123,337	**1,624,156**	**1,800,555**	**162,072**	**511,445**	**82,386**	**124,285**	**6,428,236**

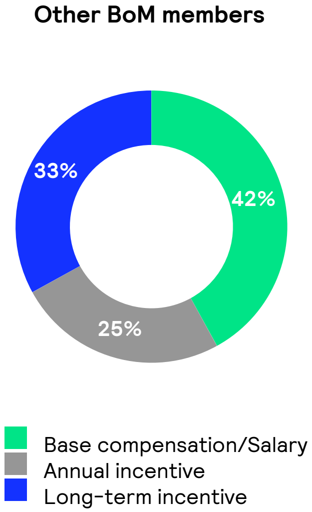
1 The annual incentive is related to the performance in the year reported which is paid out in the subsequent year.
2 Costs of performance shares are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.
3 Costs of restricted shares rights are based 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 that vested in 2022.
4 Comparatives for 2021 were revised to exclude the employee pension premium of EUR 1,941 for each of the Board of Management members.
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.

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.





The table below shows the actual remuneration mix in 2022.

	Fixed [1]	Variable [2]	Proportion fixed/ variable
E.H.E. Rondolat	1,247,680	2,545,375	33%/67%
F.J. van Engelen Sousa [3]	803,639	44,630	95%/5%
M.L. Mariani [3]	816,497	44,630	95%/5%

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 2022 as reported in the table 'Performance shares 2019 - 2022' under 9.2.5.
3 The variable remuneration for F.J. van Engelen Sousa and M.L. Mariani does not yet include an LTI vesting value as Board of Management member and therefore the mix fixed/variable differs from the mix for the other Board of Management member.

Scenario analyses are prepared regularly to estimate future payout 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. The scenarios considered achievement across all metrics at below threshold, target and maximum levels of performance and the resulting remuneration. 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 2022 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 2022, the Supervisory Board decided to increase the base salary levels for all members of the Board of Management by 3%, in line with the budgets (collective and merit increase) allocated for the CLA population in the Netherlands.

New base salaries Board of Management in 2022 in EUR

	January 1, 2022 (+ 3%)
E.H.E. Rondolat	947,330
F.J. van Engelen Sousa	619,855
M.L. Mariani	619,855

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, 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 payout schemes, being defined in incremental steps in performance and respective payout. In addition, a minimum threshold for the achievement of financial performance measures applies, below which there will be no payout. 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 2022 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 2022 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 2022. Payout 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 2022, these measures included cultural change and people engagement, customer satisfaction, M&A integration (Cooper Lighting Solutions year 3 and Fluence), Brighter Lives, Better World targets (Green Deal revenue), digital roadmap impact, cyber protection, inventory management/reduction, sales growth for new growth engines and operational efficiency and disruption handling.

Performance achievements 2022

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.

For 2022, the company was impacted by the volatile and unpredictable external environment. Although Signify adapted to the challenges during the year, all three financial metrics were below threshold levels of performance expected. As a result, for each metric the resulting achievement reflected a below-threshold outcome and a 0% payout. Comparable sales growth was 1.2%, benefiting from traction in the professional segment, that was partly offset by China which continued to be impacted by COVID-driven measures and a softness in the consumer segment. Adjusted EBITA margin declined, mainly due to adverse currency impact and fixed cost under-absorption.. Finally, free cash flow amounted to 5.9% of sales and benefited from the disposal of non-strategic real estate assets.

For the realization of the financial measures of the annual incentive, the Supervisory Board considered whether any adjustments or discretion should be applied. The Supervisory Board concluded not to make any discretionary adjustments to the outcomes of the financial measures, nor were any changes made to the original targets set for the year 2022.

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 is pleased with the continued progress of the employee Net Promoter Score, particularly given the challenges of the year. The employee Net Promoter Score has climbed steadily and reached its highest recorded level in 2022. The Q4 employee Net Promoter Score was 36 versus 32 at the end of 2021. From a customer perspective, the Supervisory Board is pleased to see the continued emphasis being placed on our customers. The Board of Management were able to hold the customer Net Promoter Score steady at 44, consistent with the end of year 2021, despite the volatility of the year. Finally, the Brighter Lives, Better World achievements continue to position Signify very well relative to the ambitious targets set for the 2025 program.

From a business perspective, the results were mixed. The connected lighting business and growth platforms grew to reach almost EUR 2 billion of sales, and Green Deal revenue is tracking very well. However, overall performance on our growth for sustainability and differentiated offer strategic frontiers were not as expected. Cash optimization and inventory management were also not at expected levels for the year. Finally, there has been good progress on the digital transformation, for example with the Hue and WiZ customer interfaces, however it needs to be accelerated.

The Supervisory Board acknowledges that during the year there were different demands than anticipated when the individual and team objectives were determined for 2022. The Supervisory Board assessed that the Ukraine crises was very well managed by the Board of Management, as was re-energizing the organization in the aftermath of COVID.

The Supervisory Board acknowledged the volatile and challenging year and assessed the individual and team performance in the context of the year. The Supervisory Board assessed performance as modest. As a result ,the Supervisory Board has determined that the realized performance on this measure was 60%.

The summarized outcomes realized on all measures are as follows:

Performance measures	Weighting	Threshold 50%	Actual	Payout %	Weighted payout %
Comparable sales growth	30%	3.0 %	1.2%	-%	**-%**
Adjusted EBITA	30%	11.6 %	10.1 %	-%	**-%**
Free cash flow	20%	8.0 %	5.9 %	-%	**-%**
Team and individual performance measures	20%		60.0%	60.0%	**12.0%**
Multiple achieved					**12.0%**

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

Annual incentive realization 2022 in EUR

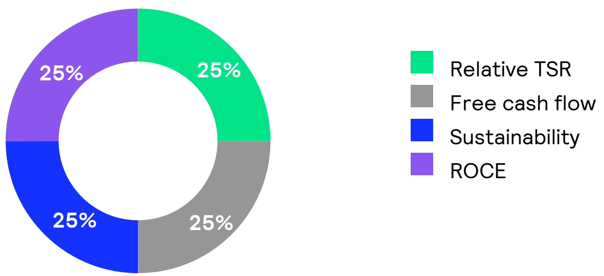
	Annual base		On-target % of annual base		Multiple achieved		Realized annual incentive (in EUR)
E.H.E. Rondolat	947,330	x	80%	x	12.0%	=	90,944
F.J. van Engelen Sousa	619,855	x	60%	x	12.0%	=	44,630
M.L. Mariani	619,855	x	60%	x	12.0%	=	44,630

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 700 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 2022: relative total shareholder return (25%), free cash flow (25%), return on capital employed (25%) and sustainability (25%).
- Payout per performance measure can vary between 0% and 200%.

Performance measures



Relative TSR

The vesting of 25% 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 payout curve, determines the payout level.

In 2022, the peer group consisted of the following companies:

TSR Peer Group

ABB	Honeywell Int.	Panasonic
Acuity Brands	Hubbell	Signify
Eaton Corporation	Johnson Controls	Schneider Electric
Fagerhult	Legrand	Toshiba
Hitachi	MLS Co Ltd	Zumtobel Group

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, and so on) 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. Per January 1, 2022 Cree was replaced by MLS Co Ltd. This means that:

- For the LTI 2020 grant (vesting in 2023) and the LTI 2021 grant (vesting in 2024), TSR will be calculated on a "synthetic combination", i.e. Cree until January 1, 2022, and MLS as of January 1, 2022.
- As of the LTI 2022 grant (vesting in 2025 and thereafter), MLS will replace Cree in the TSR peer group.

Performance-incentive zone for TSR in % of grant value

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

Free cash flow

The vesting of another 25% 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% 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 and quantitative, set ambitiously and adjusted regularly, the assessment of the performance is at the discretion of the Supervisory Board. The assessment will use tracked performance as input.

Return on capital employed

The vesting of the remaining 25% of the annual long-term incentive grant is linked to performance measured by a return on capital employed target. The targets and intervals around these measures are determined by the Supervisory Board, based on the company's strategic, multi-year plan.

In 2022, 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 average closing share price of the three months 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 2022.

Performance shares 2019-2022

	Grant date	Number of performance shares originally granted	Value at grant date (in EUR)	End of vesting period	Number of performance shares vested in 2022	Value at vesting date in 2022 (in EUR)
E.H.E. Rondolat	2019	35,148	871,000	2022	63,478	2,454,431
	2020	45,932	901,703	2023	n.a.	n.a.
	2021	21,312	919,737	2024	n.a.	n.a.
	2022	23,256	947,330	2025	n.a.	n.a.
F.J. van Engelen Sousa	2020	-	-	2023	n.a.	n.a.
	2021	11,156	481,440	2024	n.a.	n.a.
	2022	12,172	495,884	2025	n.a.	n.a.
M.L. Mariani	2020	23,228	456,000	2023	n.a.	n.a.
	2021	11,156	481,440	2024	n.a.	n.a.
	2022	12,172	495,884	2025	n.a.	n.a.

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

	January 1, 2022	Awarded 2022	Realized 2022	December 31, 2022	Vesting date [1]
E.H.E. Rondolat	35,148	–	63,478	–	02.05.2022
	45,932	–	–	45,932	04.05.2023
	21,312	–	–	21,312	01.05.2024
	–	23,256	–	23,256	01.05.2025
F.J. van Engelen Sousa [2]	–	–	–	–	04.05.2023
	11,156	–	–	11,156	01.05.2024
	–	12,172	–	12,172	01.05.2025
M.L. Mariani	23,228	–	–	23,228	04.05.2023
	11,156	–	–	11,156	01.05.2024
	–	12,172	–	12,172	01.05.2025
Performance shares (holdings)	**147,932**	**47,600**	**63,478**	**160,384**	

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 2024 and beyond in this table are for illustrative purposes only.

2 F.J. van Engelen Sousa did not participate in the long-term incentive plan in 2020; he received a EUR 300,000 sign-on grant under the restricted share rights plan in that year, which vested in 2022.

The three-year performance period for the 2019 performance share grant ended on December 31, 2021. The shares under this grant vested on May 2, 2022, with a vesting percentage of 180.6%.

In 2022, cash dividend payments on the vested long-term incentive shares held by the members of the Board of Management were paid as a re-investment in shares. E.H.E. Rondolat received 2,807 dividend shares, F.J. van Engelen Sousa 223.79 and M.L. Mariani 1,073.

At December 31, 2022, the members of the Board of Management held no options on Signify shares.

9.2.6 Realization of the 2020 grant

The three-year performance period for the 2020 performance share grant ended on December 31, 2022. The shares under this grant vest on May 4, 2023. The payout results are set forth below.

In determining the achievement of the 2020 grant, the Supervisory Board considered the impact of the benefit derived from the disposal of the non-strategic real estate assets. The Supervisory Board determined that this disposal reflected operational management of assets, and thus no adjustments were made to the 2022 year outcomes of free cash flow or ROCE. In conclusion, no discretionary adjustments were made to the results, nor to the original targets set in 2020.

Relative TSR (25% weighting)

The TSR achieved by Signify during the performance period was 23.3%. This positioned Signify as the 12th ranked company in the peer group shown in the following table, resulting in an achievement of 0%.

January 1, 2020 – December 31, 2022

Rank	Company	TSR performance
1	Eaton Corporation	86.1%
2	Hubbell	80.4%
3	Hitachi	74.6%
4	Schneider Electric	65.8%
5	Johnson Controls	55.5%
6	ABB	52.4%
7	Toshiba	49.1%
8	Acuity Brands	39.7%
9	MLS	38.0%
10	Panasonic	28.0%
11	Honeywell	24.2%
12	**Signify**	**23.3%**
13	Legrand	13.9%
14	Zumtobel Group	(4.8)%
15	Fagerhult	(25.9)%

Free cash flow (25% weighting)

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

	Payout	As % of sales
Below threshold	–%	< 8.2%
Threshold	40%	8.2%
Target	100%	8.9%
Maximum	200%	9.6%

Over the three-year performance period, an amount of EUR 1,876 million free cash was generated (excluding pension de-risking and IFRS 16), representing 9% of sales. In light thereof, the Supervisory Board determined the LTI Plan free cash flow achievement as 110%.

Return on Capital Employed (25% weighting)

Return on Capital Employed (ROCE) was a new metric in the 2020 grant. For 2022, ROCE was based on the outcomes in the last year of the plan period (2022), excluding pension liabilities. Based on an 13.8% achievement of the ROCE metric, the Supervisory Board determined the LTI Plan ROCE achievement as 200%.

	Payout	ROCE %
Below threshold	–%	< 10.6%
Threshold	40%	10.6%
Target	100%	11.1%
Maximum	200%	11.6%

Sustainability (25% weighting)

The sustainability objectives for 2022 were based on the intent to double Signify's impact in the areas of climate action, the circular economy, Brighter lives revenues and women in leadership positions by 2025. In all areas, significant progress has been made relative to the trajectory to deliver on the ambitions by 2025. Signify is on track to deliver against the ambitious goal of doubling the pace of the Paris Agreement's 1.5°C scenario. Circular revenues have exceeded the ambition set for 2022 with an increase in contributions from circular products, systems or services. Brighter lives revenue has delivered an increase in revenues coming from lighting innovations that increase food availability, safety and security, or health and well-being and remains on track to double by 2025.. Women in leadership positions has increased by 11% from 2019, however, it is behind the more ambitious path that was set for 2022 for the trajectory to double the percentage of women in senior leadership roles by 2025.

Based on the following LTI Plan sustainability measures and results over the performance period, the Supervisory Board determined the LTI Plan sustainability achievement as 150%.

			Status [1]	Result 2022 [2]
Better World	Climate action	Carbon footprint reduction	On Track	Steady decrease of emissions (scope 1, 2, 3)
Better World	Circular economy	Circular revenues	On Track	29%
Brighter Lives	Food availability Safety & security Health & well-being	Brighter lives revenues	On Track	27%
Brighter Lives	Great place to work	Women in leadership positions	Off Track	28%

[1] Status versus Brighter Lives, Better World 2025 doubling target.
[2] Data is based on current level of data availability and accuracy.

In view of the above, the following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2020 grant of performance shares.

	Achievement	Weighting	Vesting level
TSR	-%	25%	-%
Free Cash Flow	110%	25%	27.5%
Return on Capital Employed	200%	25%	50.0%
Sustainability	150%	25%	37.5%
Total			**115.0%**

9.2.7 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, 2021	Holdings as % of base [1]	December 31, 2022	Holdings as % of base [1]
E.H.E. Rondolat	195,038	877.9%	231,570	766.9%
F.J. van Engelen Sousa	10,000	68.8%	26,951	136.4%
M.L. Mariani	18,591	127.9%	33,484	169.5%

[1] As per the 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 (2022: EUR 31.37 and 2021: EUR 41.40).

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.

9.2.8 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 114,866 (2022).
- Members of the Board of Management pay an employee member contribution of 2% up to the maximum pensionable salary of EUR 114,866 (2022).
- The flex pension plan has a target retirement age of 68 (in 2022) 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 114,866 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 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.

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, 2022	Accumulated annual pension as of December 31, 2021 [1]	Total pension-related costs 2021 [2,3]	Accumulated annual pension as of December 31, 2022 [1]	Total pension-related costs 2022 [2]
E.H.E. Rondolat	56	42,188	294,101	44,672	268,625
F.J. van Engelen Sousa	54	2,677	149,865	4,379	154,380
M.L. Mariani	62	2,824	149,865	4,528	154,380
Pension costs			**593,831**		**577,385**

[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 includes paid pension allowances as well as pension premium paid by employer to collective defined-contribution plan.
[3] Comparatives for 2021 were revised to exclude the employee pension premium of EUR 1,941 for each of the Board of Management members.

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 2022, 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, as per contractual agreement, an allowance for the international school costs of EUR 12,500 net was paid in 2022.

9.2.9 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 past five years.

Remuneration and company performance development in EUR unless otherwise stated

	2018	2019	2020	2021 [3]	2022
E.H.E. Rondolat [1]	2,564,306	2,822,104	3,245,335	3,228,091	2,044,154
Change in %	(16)%	10%	15%	(0.5)%	(37)%
F.J. van Engelen Sousa [1]	-	-	599,753	1,472,859	1,124,267
Change in %	-	-	-	146%	(24)%
M.L. Mariani [1]	-	-	1,225,491	1,727,286	1,210,636
Change in %	-	-	-	41%	(30)%
Employees [2]	61,264	60,601	51,780	51,337	53,766
Change in %	(5)%	(1)%	(15)%	(1)%	5%
Free cash flow (in millions of EUR)	306	529	817	614	445
Change in %	(24)%	73%	54%	(25)%	(28)%
Closing share price on last business day December	20.47	27.86	34.53	40.78	31.38
Change in %	(33)%	36%	24%	18%	(23)%

[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 section 9.2. For F.J. van Engelen Sousa and M.L. Mariani 2020 does not represent a full year.
[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.
[3] Comparatives for the Board of Management members were revised to exclude the employee pension premium of EUR 1,941.

For 2022, the company performance shows a decline year over year in the outcomes of the selected measures. Free cash flow has declined from 2021, as has the Signify share price. The total remuneration of the Board of Management is aligned to the company performance. Total remuneration for the CEO has declined by 37%, while for the other Board of Management members it has declined by 24% and 30%. Annual incentive decreased significantly from 2021, driven by below-threshold outcomes on financial incentive plan metrics as detailed in sub-section 9.2.4. The total remuneration of the CEO reflects the completion of the pension transition allowance as detailed in sub-section 9.2.9 as well as the significantly reduced annual incentive outcome for 2022. The development of free cash flow has decreased by 28% from 2021, while Signify share price has decreased by 23%.

Employee average total compensation has increased by 5% for 2022, reflecting employee salary adjustments during the year. Since 2018, a greater proportion of the employee population has shifted from Western Europe to South East Asia, Asia, and Latin America. In 2022, the proportion of the employee population in the regions was relatively stable with a slight decrease in China and a slight increase in India. Additionally, the acquisition of Pierlite and Fluence increased the number employees in Pacific and the United States.

9.2.10 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 to evaluate and grade 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 the 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
2022	2,044,154	53,766	38
2021 [3]	3,228,091	51,337	63
2020	3,245,335	51,780	63
2019	2,822,104	60,601	47
2018	2,564,306	61,264	42

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 section 9.2.
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.
3 Comparatives for the CEO were revised to exclude the employee pension premium of EUR 1,941.

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).

For 2022, average total compensation for employees increased by 5%. The trend until 2022 had been a decline in employee average total compensation as a result of the changing geographic spread of the employee population and the acquisitions that have occurred. 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 the employee population from 2019 to 2020 and the majority of that increase was in Latin America, India and China. The acquisition of Pierlite and Fluence in 2022 increased the employee population in Pacific and the United States in contrast. 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 had been trending down until 2022, reflective of this significant shift in employee geographic spread. This impacted significantly the pay ratio from 2019 to 2021.

The CEO pay ratio has declined significantly from 2021 to 2022, as a result of the very limited payout of the annual incentive for 2022 and the completion of the pension transition allowance for the CEO versus the increase in average employee total compensation. Signify believes that the pay ratio over 2022 aligns with Signify's performance for the year.

9.2.11 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 was clawed-back in 2022.

9.2.12 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 (Directors and Officers) for the persons concerned.

9.2.13 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 Dutch Corporate Governance Code provisions.

9.2.14 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 section 7:678 of the Dutch Civil Code and further.

9.2.15 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
Digital 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.

Remuneration Supervisory Board in EUR (excluding VAT)

	Membership	Committees	Other compensation [1]	Total
2022				
A.P.M. van der Poel	110,000	25,000	5,000	140,000
G. van der Aast	85,000	28,000	5,000	118,000
E. Blok [2]	28,225	9,800	–	38,025
P. Knapp	75,000	32,500	17,500	125,000
R.S. Lane	75,000	20,500	27,500	123,000
F. Lubnau	75,000	30,000	17,500	122,500
B. Schot [3]	75,000	16,250	5,000	96,250
	523,225	**162,050**	**77,500**	**762,775**
2021				
A.P.M. van der Poel	110,000	25,000	–	135,000
G. van der Aast	85,000	28,000	–	113,000
E. Blok	75,000	26,000	–	101,000
P. Knapp	75,000	32,500	7,500	115,000
R.S. Lane	75,000	20,500	12,500	108,000
F. Lubnau	75,000	30,000	7,500	112,500
	495,000	**162,000**	**27,500**	**684,500**

1 The amounts mentioned under other compensation relate to the allowance for (inter-)continental travel.
2 Stepped down as member of the Supervisory Board on May 17, 2022.
3 Appointment as a member of the Supervisory Board in AGM 2022. The remuneration includes the observer period.

At December 31, 2022, the members of the Supervisory Board held no Signify shares, options on Signify shares nor other Signify securities (2021: nil).

The following table reflects the annual change of remuneration of each of the members of the Supervisory Board over the full financial years over the past five years.

Supervisory Board remuneration 2018 – 2022 in EUR (excluding VAT)

	2018	2019	2020 [3]	2021	2022
A.P.M. van der Poel	140,000	137,500	128,250	135,000	140,000
G. van der Aast	118,000	113,000	107,350	113,000	118,000
E. Blok [1]	74,065	95,500	90,725	101,000	38,025
P. Knapp	–	–	66,698	115,000	125,000
R.S. Lane	121,125	121,689	87,875	108,000	123,000
F. Lubnau	–	–	95,720	112,500	122,500
B. Schot [2]	–	–	–	–	96,250

1 Stepped down as member of the Supervisory Board on May 17, 2022.
2 Appointment as a member of the Supervisory Board in AGM 2022. The remuneration includes the observer period.
3 Includes 20% COVID-19 reduction in Q2 2020.

9.4 Remuneration outlook 2023

9.4.1 Base salary

For 2023, the Supervisory Board decided to increase the base salary levels for all members of the Board of Management by 4%, in line with the expected (collective and merit increase) budgets determined for the CLA population in the Netherlands.

in EUR	January 1, 2023 (+4%)
E.H.E. Rondolat	985,223
F.J. van Engelen Sousa	644,649
M.L. Mariani	644,649

9.4.2 Annual cash incentive

For 2023, the Supervisory Board has decided to select the same financial performance measures as used in previous years but with more weight on free cash flow and Adjusted EBITA than on comparable sales growth: free cash flow (30%), Adjusted EBITA (30%) and comparable sales growth (20%), measured as a percentage of sales.

9.4.3 Supervisory Board

No 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.

Signify N.V. has a two-tier board structure consisting of a Board of Management responsible for the management of the company and a Supervisory Board that supervises and provides advice to the Board of Management. 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 2016 (https://www.mccg.nl/english), 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.

In this chapter, the company addresses the main elements of its corporate governance structure, reports on how it applies the principles and best practices of the Dutch Corporate Governance Code and provides the information required by the Dutch governmental decrees on Corporate Governance and Article 10 Takeover Directive. Deviations from aspects of the corporate governance structure of the company, when deemed necessary in the interests of the company, will be disclosed in this chapter.

In line with the Dutch Corporate Governance Code, other parts of the Annual Report address and explain the strategy and culture of Signify aimed at long-term value creation. Signify's strategy is described in more detail in chapter 3, Creating long-term value. This chapter also provides an explanation of our value creation model which allows our stakeholders to consider the economic, social and environmental impact of our business activities.

The CEO message in chapter 2, highlights how the company's strategy was executed in 2022. Additionally, please refer to chapter 4, Corporate performance and chapter 8, Supervisory Board report, which describe how the Supervisory Board is involved in the company's strategy as well as other topics such as culture and diversity & inclusion.

As set out in chapter 16, Sustainability statements, section 16.3, Brighter Lives, Signify's culture is centered around its four values: Customer First, Game Changer, Greater Together and Passion for Results, and anchored by the integrity norms described in our Integrity code. An important aspect of our culture relates to diversity & inclusion, which is discussed and explained in the same chapter.

10.1 Signify organization

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

In addition, to manage its global sales channels, the company's commercial organization is currently structured along several geographical market clusters. These market clusters 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 through 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 clusters are supported by centralized shared services with respect to, among other functions, legal, finance, human resources, business transformation, strategy, marketing, innovation and operations.

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 interests of relevant stakeholders into account. 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.

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.

The Board of Management is accountable to the Supervisory Board for its actions and decisions. 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 the information it needs to fulfil its responsibilities.

Certain decisions of the Board of Management require Supervisory Board approval. These decisions include 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

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.

Composition

The composition of the Board of Management follows the board 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. This profile also applies for the Supervisory Board, and can be found on the company's website. The size of the Board of Management may vary over time, as considered appropriate to support its profile.

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 supervises the policies and management and the general affairs of the company. The Supervisory Board appoints a Chair and a Vice-Chair from among its members. The Chair ensures the members of the Supervisory Board and its committees function properly in all respects and comply with the Supervisory Board Rules of Procedure. The Chair is the main contact on behalf of the Supervisory Board for the General Meeting. 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.

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.

Appointment

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 term of appointment of a member of the Supervisory Board will end at the closing of the AGM to be held in the fourth year after appointment. In line with the Dutch Corporate Governance Code, the members of the Supervisory Board are eligible for re-appointment for a period of maximum four years. Subsequent re-appointments are possible for a period of two years, which may be extended by a re-appointment of maximum two years. The reasons for re-appointment of a member of the Supervisory Board after an eight-year term must be included in the report of the Supervisory Board.

As from 2022, a mandatory gender quota applies under Dutch law requiring supervisory boards to be composed of at least one-third men and one-third women. The Supervisory Board meets this target for the financial year 2022. The gender quota needs to be observed in case of a new appointment of a member of the Supervisory Board and a re-appointment of an acting member of the Supervisory Board after an eight-year term. Any new appointment or re-appointment after an eight-year term resulting in the composition of the Supervisory Board not meeting this gender quota, will be null and void. An appointment or re-appointment that does not contribute to the gender balance will only be allowed under certain exceptional circumstances.

Composition

The composition of the Supervisory Board follows the same board profile that applies to the Board of Management, see paragraph 10.2 above.

The composition of the Supervisory Board shall also 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 size of the Supervisory Board may vary over time, as considered appropriate to support its profile. In 2022, the Supervisory Board consisted of six independent members.

10.4 Supervisory Board Committees

In 2022, the Supervisory Board had four committees: The Audit Committee, the Corporate Governance and Nomination & Selection Committee, the Remuneration Committee and 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 2022 is set out in chapter 8, Supervisory Board report.

Each committee has a charter describing its role, responsibilities and functioning. These charters are published on the company's website. The responsibilities of each Committee are described in more detail below.

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 the 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 the selection and appointment of members of the Supervisory Board and the members of the Board of Management.
- Prepares 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.
- Supervises the policy on selection criteria, and is involved in the selection and appointment of the company's leadership team, appointments of which are subject to the Supervisory Board's approval.
- Periodically assesses the size and composition of the Board of Management and the Supervisory Board, and the functioning of the individual members, and proposes on appointments and re-appointments.

- Leads the performance evaluation of the Board of Management and Supervisory Board.
- Reviews the corporate governance of the company and can make recommendations to the Supervisory Board relating to the corporate governance of the company at least once a year.

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.
- 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; and
- 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 considering 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.

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.
- Assists the Supervisory Board in supervising the company's policy on digital marketing strategies, tools and operations.
- Reviews the company's digital objectives and performance, periodically assesses the effectiveness and results of the digital initiatives as well as management skills, capabilities and training.
- Reviews the governance for deciding on digital prioritization and spending within the company at least once a year.

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 meets at least four times a year

10.5 Other governance matters related to the Board of Management and Supervisory Board

Diversity

Signify believes that a diverse workforce and an inclusive working environment are essential to a thriving business and long-term value creation.

In view hereof, Signify aims that the Board of Management and the Supervisory Board comprise members who 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. For the Supervisory Board members, and in line with the Dutch law requirement, Signify aims that at least one-third are men and at least one-third are women. For the Board of Management, Signify aims at having at least one man and at least one woman for a board with three members, and at least two men and two women for a board with five members.

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 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.

Pursuant to Dutch law, the remuneration policies must be adopted by the AGM at least every four years. The resolution of the general meeting to adopt the remuneration policy requires a 75% majority of the votes cast, unless the Articles of Association explicitly provide otherwise, which Signify's Articles of Association do not. The remuneration report relating to the previous financial year must be submitted to the AGM on an annual basis for an advisory vote.

The current remuneration policies for Board of Management and the Supervisory Board were adopted by the AGM in 2020. The composition of the remuneration of the members of the Board of Management and the members of the Supervisory Board and the remuneration policies are described in chapter 9, Remuneration report.

Conflicts of interest

Members of the Board of Management shall not participate in the discussions and decision-making process on a subject or transaction that 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.

The rules for conflict of interest applicable to the members of the Board of Management also apply to the members of the Supervisory Board. No conflict of interest as referred to in this section occurred during 2022.

Outside positions

Pursuant to Dutch law, 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 counts twice.

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.

The Supervisory Board member must inform the Chair of the Supervisory Board before accepting a position outside the company.

All members of the Board of Management and the Supervisory Board complied with the restriction as set out above for the financial year 2022.

10.6 General Meeting of Shareholders

The main rights of the General Meeting are to:

- Appoint, suspend and dismiss members of the Board of Management and 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.
- Adopt the annual accounts.
- Declare dividends.
- 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.
- Appoint the external auditor as required by Dutch law.
- Adopt amendments to the Articles of Association and proposals to dissolve or liquidate the company.
- Issue shares or rights to shares, to restrict or exclude preemptive rights of shareholders and to repurchase or cancel outstanding shares; and
- Approve 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 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 can be 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 the 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, 2022, 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 17, 2022, the General Meeting resolved to authorize the Board of Management for a period of 18 months, effective as of May 17, 2022, to issue shares or grant rights to acquire ordinary shares 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 17, 2022, and subject to approval from the Supervisory Board. At the same time, the Board of Management was authorized to acquire ordinary shares on the stock exchange or otherwise, subject to the approval of the Supervisory Board, at a price between the nominal value of the ordinary shares and 110% of the market price of the ordinary shares on Euronext Amsterdam, provided that the maximum number of ordinary shares the company may acquire and hold does not exceed 10% of the issued share capital as at May 17, 2022, plus an additional 10% of the issued capital as at that same date in connection with the execution of share repurchases for capital reduction purposes.

10.7 Stichting Continuïteit Signify

Stichting Continuïteit Signify, a foundation (stichting) incorporated under Dutch law, has been granted a call option right to acquire preference shares in the share capital of the company. The possibility of issuing preference shares in the share capital of the company is a defensive measure. The foundation may resolve to exercise the call option at its sole discretion without the consent of the company. 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, 2022.

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.

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.

As of December 31, 2022, the board of the foundation was composed of the following independent members: 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.

10.8 Change of Control

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, certain bi-lateral credit agreements that have been entered into to refinance term loans, 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.

10.9 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) No. 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. Ernst & Young Accountants LLP was first appointed as external auditor of the company on May 13, 2016, for the financial years 2016 through 2019. On May 14, 2019, the General Meeting re-appointed Ernst & Young Accountants LLP as external auditor of the company for the financial years 2020 through 2022. The agenda for the upcoming AGM will include a proposal to re-appoint Ernst & Young Accountants LLP as external auditor of the company for the financial years 2023 through 2025.

The services provided by the external auditor are pre-approved by the Audit Committee on the basis of the annual audit services engagement agreed with the external auditor. Unless general pre-approval has been given at the beginning of the year, all proposed services require such specific pre-approval.

In principle, the external auditor attends 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. The external auditor may also attend the Annual General Meeting to elaborate on its audit and auditor's report and is available for questions.

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 took place as of the start of the financial year 2021. Furthermore, Dutch law requires the rotation of the external audit firm after the firm has completed the statutory audit 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.

10.10 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 relate to the Board of Management or the Supervisory Board. The updated Dutch Corporate Governance Code as published on December 20, 2022 will be applied within Signify in 2023.

11 Investor relations

11.1 Shareholder engagement

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

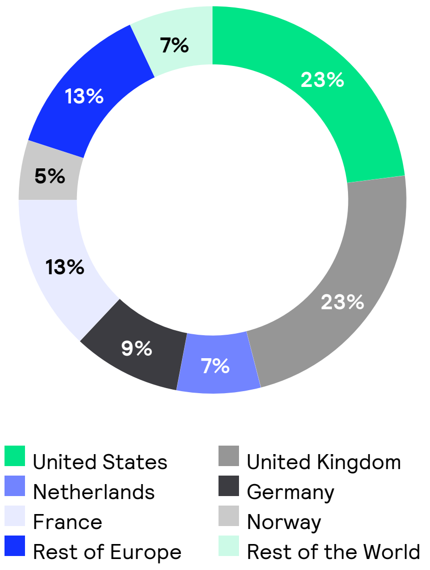
In 2022, Signify reached around 210 unique investment institutions through its Investor Relations activities and covered around 87% of its active shareholder base.

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 its financial results on a quarterly basis. Each quarter, the company also organizes an earnings call for research analysts and institutional investors to discuss these results. These earnings calls can be accessed and replayed on Signify's Investor Relations website. The Supervisory Board receives regular updates on the feedback from institutional shareholders and investors as well as equity analysts, giving them a clear understanding of shareholders' views and concerns.

11.2 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 performed in December 2022.

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, 2022, and the related actual interests.

Signify shareholders

	% Actual interest [1]	Total % registered [2]
Amundi Asset Management	5.0%	5.0%
BlackRock Inc.	1.9%	4.0%
DWS Investment GmbH	3.5%	3.6%
Impax Asset Management Group Plc.	3.0%	3.0%
Pictet Asset Management S.A.	3.0%	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 2023 Annual General Meeting of Shareholders will be held on May 16, 2023. The agenda and the explanatory notes to the agenda will be published on the company's website. The record date for the 2023 Annual General Meeting of Shareholders is April 18, 2023, 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 in the meeting.

II.4 Capital allocation

Capital allocation policy

Signify's capital allocation policy is:
- To pay an increasing annual cash dividend per share year on year.
- To maintain a robust capital structure and maintain an investment grade credit rating.
- To continue to invest in organic and inorganic growth opportunities in line with its strategic priorities.

In 2022, Signify reduced its net debt/EBITDA ratio to 1.3x. Excluding the 2022 acquisitions of Fluence and Pierlite, the company delivered on its target to reduce leverage to around 1.0x, down from 2.7x after the Cooper Lighting acquisition in March 2020.

Dividend policy

Signify's dividend policy is to pay an increasing annual cash dividend per share 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, might also impact the amount, timing and payment of future dividends. These might be beyond the control of the company.

Proposed dividend

The company proposes a dividend of EUR 1.50 per share, in cash, from the net income for full-year 2022. This is in line with its dividend policy of paying an increasing cash dividend per share year on year.

The dividend payment is subject to approval by the Annual General Meeting of Shareholders on May 16, 2023. Further details will be provided in the agenda for the AGM. 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

Ex-dividend date	May 18, 2023
Dividend record date	May 19, 2023
Dividend payment date	June 5, 2023

Share repurchases for LTI hedging

During 2022, Signify repurchased a total of 1,174,595 shares for a total consideration of EUR 48 million. These shares are used to cover obligations arising from its long-term incentive performance share plan and other employee share plans.

850,000 of these shares were repurchased in the open market for a total consideration of EUR 35 million. These repurchases took place in the period from February to March 2022.

II.5 Debt info

Term loan structure and revolving credit facility

As of December 31, 2022, the company had long-term loans outstanding. Of these loans, EUR 280 million will mature in November 2024 and USD 225 million will mature in January 2025. In addition, the undrawn revolving credit facility (RCF) of EUR 500 million will mature in January 2027.

The term loans and RCF agreement include a financial covenant, which requires that Signify maintains a net leverage ratio of no greater than 3.5x. The net leverage ratio might temporarily increase to 4.0x within 12 months after the closing of material acquisitions. The covenant does not apply if Signify has at least one investment grade rating. Signify currently has two investment grade ratings.

Eurobonds

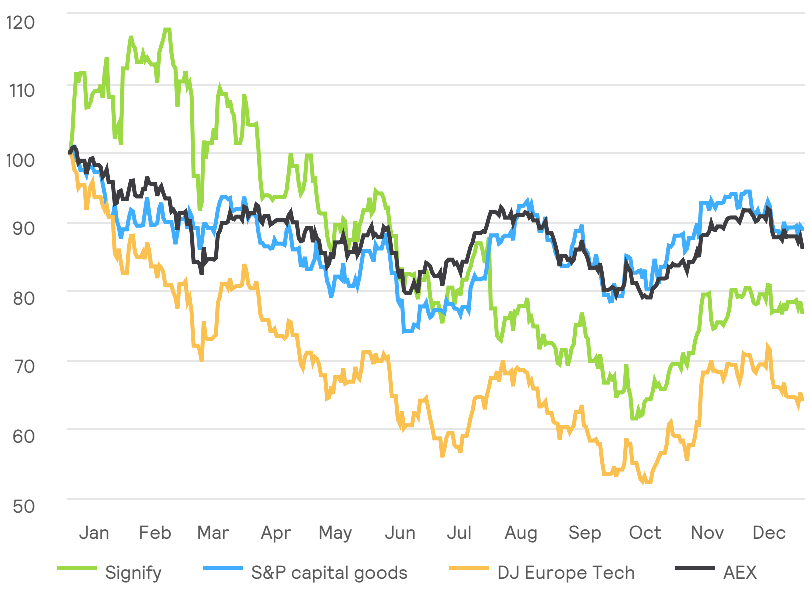
As of December 31, 2022, Signify had fixed rate notes outstanding. Of these fixed rate notes, EUR 675 million will be due in May 2024 and EUR 600 million will be due in May 2027.

More information about Signify's debt position can be found at https://www.signify.com/global/our-company/investors/shareholder-info/debt-info.

II.6 Share performance

In the first half of the year, Signify's share price outperformed the AEX index, the S&P capital goods index and the DJ Europe (excl. UK) technology index. Towards the second half of the year, the share price started to underperform the three indices. As a result, Signify's full-year share price performance outperformed the DJ Europe (excl. UK) technology index, but underperformed the S&P capital goods index and the AEX index.

Share price development (indexed)



On a full-year basis, Signify's share price declined by 23%, while the DJ Europe (excl. UK) technology index declined by 36%, the AEX index by 14% and the S&P capital goods by 11%.

The market capitalization at year-end 2022 was EUR 4.0 billion and the free-float was 98%.

II.7 Financial calendar

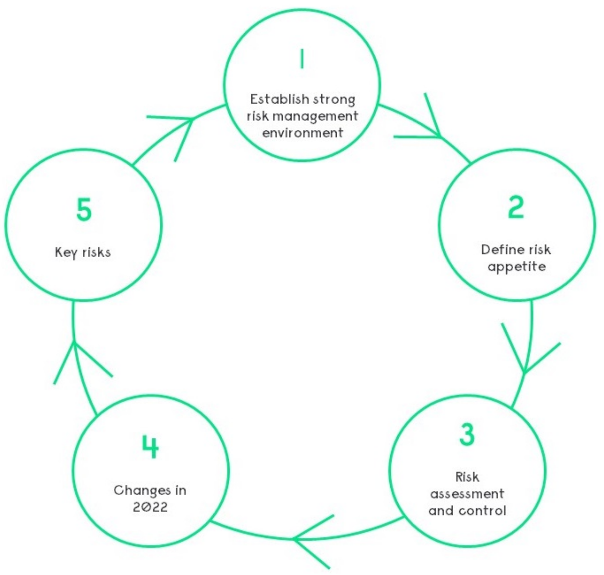
Financial calendar 2023

Report/Activity	Date
Q1 2023 financial report	May 3, 2023
Annual General Meeting of Shareholders 2023	May 16, 2023
Q2 and first-half 2023 financial report	July 28, 2023
Q3 2023 financial report	October 27, 2023

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, management is able 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. This is done 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 a 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 managing the risks associated with the company's activities and for defining the company's risk appetite. The Board of Management is assisted by the company's leadership team, which participates on a quarterly basis in audit risk and control meetings to identify critical risks and to 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 by the Audit Committee on a quarterly basis. An in-depth description of the company's corporate governance structure can be found in chapter 10, Corporate governance.

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 (i) integrated management control of the company's operations in order to ensure the integrity of the financial reporting and related disclosure, and (ii) compliance with applicable laws and regulations. The company has designed its BCF based on the framework 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 practices.

Integrity code

Acting with integrity is the cornerstone for the success of our business and for 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. Furthermore, the Signify central privacy office safeguards the governance of personal data together with privacy contact points across divisions, markets and functions.

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 consistently registered in a single database and are investigated in accordance with standardized investigation procedures. An overview of the reporting activities for 2022 is given in chapter 16, Sustainability statements, sub-section 16.3.5, Business ethics.

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 a medium strategic risk appetite and is prepared to take some reasonable strategic risks, balancing the need to capture return from opportunities and management of the risks.

The company's key strategic risks are discussed in section 12.5 and include technological change, competition, global political and economic instability, digitalization, acquisitions and integration and concentration risk.

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 a low operational 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 section 12.5 and include supply disruptions, innovation, cyber-attacks and security breaches, new organizational capabilities, and 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 its global footprint, exposed to risk of fraud and other misconduct in violation of the integrity code and/or applicable laws and regulations, governmental investigation and legal proceedings in relation thereto.

The company has a very low compliance 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 of financial risk, 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

The company leadership team identifies the key risks as part of the strategic review process. In a subsequent workshop, the leadership team ranks the risks based on impact, likelihood, risk criticality and control effectiveness. As part of the strategic review cycle, initiatives are defined to mitigate the risks. Owners are assigned for each of the strategic initiatives, and they are then accountable for ensuring adequate risk mitigation and for monitoring the implementation of mitigation measures. Each quarter, the key risks are discussed during the audit and risk committee meeting. 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 are reviewed together with the Board of Management. On a quarterly basis, risks and controls are reviewed with the Divisions, Market Groups and specific Functions in the audit risk committee.

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 Head of Legal Compliance.

With an annual Integrity code self-assessment process forming part of the internal controls over financial reporting (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 e-learnings. In 2022, 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 (virtual) classroom 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 annually 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 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, whereby business process owners engaged in the key financial processes perform self-assessments 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, 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.

The global tax strategy and policy are aligned with our business and sustainability strategies and are published on the company's website. The Board of Management, enabling functions, Divisions and Markets are advised on tax matters by Group tax to ensure both the needs of the business and of the tax function are balanced. The company also participates in national and international forums 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. Also refer to chapter 16, Sustainability statements.

For further details on financial risks please refer to chapter 14, Consolidated financial statements, note 9, Income tax, note 25, Post-employment benefits and note 29, Financial risk management.

12.4 Changes in 2022

In 2021, the risk workshop and strategic review processes were integrated. In 2022, the risk mitigation process is further improved by having stronger links with relevant strategic initiatives and follow ups on a quarterly basis.

In 2022, we started the implementation of our internal control framework in our recent acquisitions Pierlite and Fluence.

Employees have been provided with a new Privacy and Data Protection Learning Path in 2022 to work with the central Privacy Management Software, enabling a better user experience whilst interacting with the privacy office. Additionally, need-based functional privacy trainings have been provided alongside train-the-trainer sessions.

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.

Risk	Risk description	Mitigation actions
Technological change	The transition to LED lighting is characterized by the increasing importance of digital capabilities and technology, such as the adoption of connected lighting systems may drastically change the business environment. At present, a relatively small part of the worldwide installed base of light points is connected. 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. Signify also aims to develop new business models, in particular through value-added service offerings. The risk is that the extent and speed of adoption of connected lighting systems and services does not develop as anticipated, or that Signify is unable to successfully implement its strategy in connected lighting.	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 strongly focus on the interoperability of its applications and to incorporate different connectivity technologies in its connected lighting portfolio, thereby addressing different needs in the market. Additionally, Signify plays a leading role in developing the market for connected lighting systems, in building awareness of the benefits of connected lighting, and in forging partnerships and alliances. Finally, in order to capture this new value opportunity, Signify's systems and product teams are developing innovative services and flexible offers meeting differentiated customer needs from basic to advanced and responding to different regional requirements around connected lighting. The market adoption of connected technologies is captured through quarterly market analysis and forecasting.
Competition	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. This might impact revenues and profitability, in particular, if Signify fails to manage costs. In the area of connected lighting, the risk is that non-lighting players with broad technology platforms might enter and disrupt the lighting market.	To counter aggressive commoditization by Asian players, Signify's strategy includes the creation of tiered offerings (e.g. B-brand and private label), but also bringing renewed innovation into the commoditized LED segment (A-class LED range) Further, the company is strengthening its digital (sales) capabilities and is running saving initiatives to keep its cost base competitive. Also, Signify can make use of the Philips brand, which has a strong global reputation and brand preference to drive sales. Finally, in the connected lighting segment, the company manages to maintain a leadership position by providing a continues stream of innovations to the market, both in hardware and software. In general, Signify has a global sales and distribution network which is difficult for a competitor to replicate. This network allows the company to quickly roll-out innovative products and services on a global scale.

Risk	Risk description	Mitigation actions
Global political and economic instability	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 might disrupt our operations and, ultimately, our sales, profit and cash flow, as Signify has commercial activities and operations in almost every country. Adverse economic conditions might result in lower customer demand. In particular, both the Russia-Ukraine war with the resulting high level of inflation and the Chinese zero-COVID policy have had an adverse effect on consumer and customer spending, and hence on the company's sales in 2022. Persistent supply chain disruptions from China impaired the company's ability to meet existing customer demand and have affected customer satisfaction levels. Separately, the company's result was negatively impacted by the rising cost of energy, disproportionately impacting the Conventional Products Division as it uses glass furnaces in the production of Conventional Lighting, and as lower transport density leads to a significant worsening of transportation cost. And as the passing-through of disproportionate cost increases to consumer price increases promotes an accelerated switch to LED Lighting, there is potential for further disruption to the company's conventional lamps business.	At the macro level, Signify actively engages in global forums focused on the benefits of globalization. Signify is also committed to highly credible industry organizations globally to support the stabilization of global trade. In order to minimize the impact of instability on its business, Signify closely follows and reviews (geo)political and economic developments and takes these into account in both its short- and medium-term operational planning. To mitigate potential supply chain inefficiencies, tariff impacts arising from geopolitical tensions and trade protectionism, and to address continued uncertainty from COVID interventions, Signify leverages its global (manufacturing) footprint and makes adjustments to its sourcing base when needed. The company has also launched actions throughout the organization to secure the supply of components and to maximize the delivery of existing customer orders. Inflation in Commodity and Energy prices is offset through a combination of cost savings and price increases.
Supply disruption	Signify depends on external suppliers and, to a large extent, on the production of components and LED products from Asian countries. The risk of this high dependency is that suppliers are not able to deliver (raw) materials, components or services in a timely manner for Signify to meet customer demand. 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. Finally, increasing geopolitical tensions and trade protectionism, such as local manufacturing requirements, might disrupt the company's operations. This might limit the company's ability to leverage and draw efficiencies from its global (manufacturing) footprint.	Signify has built a supplier risk plan in which at risk suppliers are identified using criteria that take into account the geographical location of the supplier, and the technologies and processes used. In addition, Signify has enhanced regional supply capabilities to increase the share of components needed for manufacturing products for a particular region, as opposed to them being sourced from remote locations. Regular risk assessments are carried out at individual plant level, including the risks related to natural catastrophes and water scarcity. These assessments are also performed at locations of business-critical suppliers and of strategic inventories. Signify requires its sites to have robust business continuity plans for any large-scale events that can severely impact the business. These plans include sourcing from alternative suppliers, nearshoring, and increasing strategic inventories.

Risk	Risk description	Mitigation actions
Supply disruption (cont.)	Due to the zero-COVID policy in China in 2022, the company continued to be impacted by shortages of electronic components and logistics disruptions, mostly in the 1st half of 2022. Moreover, early 2022, the company continued to see a volatile market with significant increases in the costs of (raw) materials and key components, putting further pressure on pricing to the final customers.	Cost inflation due to the shortage of components, containers or labor is offset through a combination of cost savings and market price increases. The level of pricing moves is benchmarked versus key competitors.
Innovation	The high speed of innovation and the increasing importance of digital technology in the general lighting industry requires Signify to spend considerable resources on developing new products and solutions. It also requires developing different capabilities and competences to commercialize its innovations successfully. In particular, in the fast-changing market in which the company operates, it must continuously address the needs of local customers and introduce locally relevant new products and solutions ahead of competition. Failure to bring new products and solutions to the markets in a timely fashion and to commercialize its innovations successfully would lead to the expected benefits of these investments not being delivered and, hence, this would be detrimental to both the top and bottom line of the company.	Signify invests significantly in its R&D activities. It has dedicated R&D activities to support its divisions in developing and realizing near-term innovation roadmaps, and to develop longer-term innovations with a focus on areas such as connected lighting systems, software and digital applications. 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. The return on innovation investments is reviewed on a quarterly basis, including speed to market, efficiency of investment and sales development versus plan.
Cyber-attacks and security breaches	As Signify becomes more digitalized, more devices and systems are connected online. This increases cyber security risk across enterprise IT, Operational Technology (OT) and our products and solutions that are delivered with Internet of Things (IoT) capabilities and accompanying (cloud-based) software applications. 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, with or without ransom demands. Further, a cyber-attack could cause a data breach where sensitive, protected, personal or confidential data held by Signify is leaked or stolen.	Signify develops its products and software applications and secures the ecosystem in conformity to security standards and best practices (ISA/IEC62443, ISO2700x, NIST). Cyber risk is reviewed by the Board of Management and the Supervisory Board on a periodic basis. A dedicated cyber security team scans external developments, identifies inherent risks, and proposes plans to limit residual risk as much as possible. The Security Board aligns on the level of acceptable residual risk. Each year mandatory security and data protection & privacy awareness trainings are conducted. A security improvement roadmap has been created and the progress is monitored by the Security Board, Supervisory Board and Audit Risk Committee. Security measures are in place to detect attackers and to minimize the risk of them 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 and manufacturing sites. These business continuity plans are tested periodically.

Risk	Risk description	Mitigation actions
Digitalization	It is a strategic priority for Signify to digitalize its customer interfaces, its processes, and its offers. As such, digitalization is a key opportunity to provide higher customer service levels, more attractive customer offers, and to continue optimizing productivity through more efficient workflows. Failure to keep up with ongoing digitalization and to adapt to new technologies will lead to a gradual loss of both market share and earnings.	Over the past years, the company has stepped up its investment in digitalization. Signify has established a Digitalization roadmap for customer interfaces, processes and offers. IT architecture, employee re-skilling and data governance have been identified as key enablers. Several key programs have been initiated under the leadership of Chief Digital and Information Officer in the areas of technology foundation, skills up-grading, enhancement in go-to-market and E-commerce capabilities. Progress against the established roadmap and the key programs is closely followed-up by the Digital Committee, a sub-committee of the Supervisory Board.
New organizational capabilities	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.	Signify invests in the professional development of its employees through learning initiatives as well as through dedicated talent management programs that identify top talents early in their career. In addition, actions were launched to upscale commercial skills and capabilities in cooperation with Learning@Signify Academy. Next, 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. Finally, through M&A projects of various size, new capabilities are brought to the company, with retention programs being part of the due diligence and acquisition approval process.
Acquisitions and integrations	Selected acquisitions have been, and are, an important part of Signify's strategy. These acquisitions are focused on growing the business, strengthening its supply chain or acquiring complementary technologies or new capabilities. Acquisitions always entail integration risk, which in turn could result in (cost) synergies, strategic advantages and/or economies of scale being delayed or not fully realized.	For any acquisition, Signify follows a rigid process of confirming strategic relevance, value creation, due-diligence, and post-merger integration plan. Throughout the entire process, Signify makes sure to involve the right people from the organization, considering all vital aspects of the business. Immediately after any acquisition, a multidisciplinary team with members from both organizations is put together to ensure a smooth integration of the new business, both from a top-line synergy, a cost synergy, and a cultural integration point of view.

Risk	Risk description	Mitigation actions
Climate change	The impact of climate change generates both opportunities and challenges for Signify's existing and future lighting products and solutions portfolio. And, with a global footprint, Signify's manufacturing sites and supply chain are exposed to risks related to climate change. In line with that, Signify is seeing 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 the adoption of more energy-efficient products and low carbon solutions. On top of climate crisis, 2022 saw the emergence of an energy crisis, making energy reductions more urgent than ever. As lighting represents more than 10% of global electricity consumption, the lighting industry will need to adapt to changing environmental regulations. The 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's reputation and brand. Additionally, understanding the risks posed by climate change, and how to improve business resilience through climate change mitigation and adaptation accordingly, is imperative to secure the company's longer-term success.	As part of its Brighter Lives, Better World 2025 sustainability program, Signify is taking measures to manage climate risks and adapt its businesses. Since 2020, Signify is carbon neutral in its operations and sources 100% renewable electricity. Investments in purchase power agreements not only contribute to emission reduction but also hedge the fluctuation of energy prices. Sustainability is an integral part of Signify's 5 Frontiers strategy. Its pillar, Growth for Sustainability, aims to address global challenges by focusing on sustainable growth areas, based on low-carbon technological innovation: Climate action, Circular economy, Food availability, Safety & security, and Health & well-being. Through its global leadership in energy-efficient lighting, Signify's portfolio is uniquely positioned to mitigate risks and capture opportunities related to climate change. For example, Signify continues to expand its Philips Ultra Efficient portfolio, the world's most efficient energy saving LED Lighting, thereby helping to reduce energy expenditure. Following the recommendations and guidance of the Task Force on Climate-Related Financial Disclosures, Signify conducts ongoing climate risk assessments in line with the four core elements of governance, strategy, risk management, and metrics and targets (for details, please refer to the Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads). At the end of 2022, Signify was on track to achieve its ambitious Brighter Lives, Better World 2025 commitments (for details, please refer to chapter 16, Sustainability statements).
Concentration risk	With the acquisition of US-based Cooper Lighting (2020) and Fluence (2022), Signify's overall risk profile changed. As a result, Signify is more exposed to developments in the professional lighting market, and in particular, in the North American market. Therefore, going forward, any developments in those markets are expected to have a bigger impact on the company's results, operations and prospects. More importantly, in case of negative developments in North America, it might have a reduced ability for offsets through its other business activities and markets in which it is active.	The increased importance of the US is recognized and taken into consideration in the annual strategic planning process and risk assessment. Resources are allocated in line with both the size of the business and the future growth potential. Not only is the company focused on getting the right talent to drive the success of the US business, but also the Divisions and Functions are expected to spend a significant amount of time and energy on ensuring a successful US business. Finally, in order to address both the importance of the US business and the higher risk of global disruption, dedicated support plans have been and are being worked out for the US.

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, 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 12 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. 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 28, 2023

Board of Management
Eric Rondolat
Javier van Engelen
Maria Letizia Mariani

Corporate statements

Table of contents

Corporate statements

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 2022 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, section 11.4, Capital allocation
- 12, Risk factors and risk management
- 13, Statement of the Board of Management
- 16, Sustainability statements
- 18, Reconciliation of non-IFRS financial measures
- 19, Definitions and abbreviations
- 20, Forward-looking statements and other information

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 chapter 4, Corporate performance, section 4.3, Proposed distribution to shareholders, chapter 10, Corporate governance, section 10.1, Signify organization and chapter 17, Combined independent auditor's 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.

14.1 Consolidated statement of income

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

	Note	2021	2022
Sales	3	6,860	7,514
Cost of sales		(4,189)	(4,781)
Gross margin		**2,671**	**2,732**
Selling, general and administrative expenses		(1,882)	(1,927)
Research and development expenses		(286)	(295)
Impairment of goodwill	15	–	–
Other business income	7	19	227
Other business expenses	7	(8)	(19)
Income from operations	4	**514**	**718**
Financial income	8	33	47
Financial expenses	8	(57)	(88)
Results from investments in associates		–	–
Income before taxes		**490**	**678**
Income tax expense	9	(83)	(145)
Net income		**407**	**532**
Attribution of net income for the period:			
Net income (loss) attributable to shareholders of Signify N.V.		397	523
Net income (loss) attributable to non-controlling interests		9	9
Earnings per common share attributable to shareholders	10		
Weighted average number of ordinary shares outstanding used for calculation (in thousands):			
• Basic		124,967	125,004
• Diluted		128,646	127,597
Net income attributable to shareholders per ordinary share in EUR:			
• Basic		3.18	4.18
• Diluted		3.09	4.10

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

	2021	2022
Net income	**407**	**532**
Pensions and other post-employment plans:		
• Remeasurements	20	15
• Income tax effect on remeasurements	(4)	(5)
Total of items that will not be reclassified to the Income statement	**16**	**11**
Currency translation differences:		
• Net current period change, before tax	291	159
• Income tax effect	–	–
Net investment hedge:		
• Net current period change, before tax	(22)	(10)
• Income tax effect	–	–
Cash flow hedges:		
• Net current period change, before tax	(26)	(24)
• Income tax effect	6	6
Total of items that are or may be reclassified to the Income statement	**249**	**132**
Other comprehensive income	**265**	**143**
Total comprehensive income	**671**	**675**
Total comprehensive income attributable to:		
• Shareholders of Signify N.V.	650	663
• Non-controlling interests	22	12

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	2021	2022
Non-current assets			
Property, plant and equipment	3, 13	724	699
Goodwill	3, 15	2,464	2,861
Intangible assets, other than goodwill	3, 15	730	700
Investments in associates	12	12	12
Financial assets	29	58	165
Deferred tax assets	9	481	418
Other assets	20	67	40
Total non-current assets		**4,536**	**4,895**
Current assets			
Inventories	17	1,410	1,361
Other assets	20	192	161
Derivative financial assets	29	58	34
Income tax receivable	9	24	56
Trade and other receivables	18	1,183	1,102
Cash and cash equivalents	29	851	677
Assets classified as held for sale		3	1
Total current assets		**3,720**	**3,391**
Total assets		**8,256**	**8,286**

14.3 Consolidated statement of financial position (continued)

		2021	2022
Equity			
Shareholders' equity	22	2,459	2,920
Non-controlling interests	12	138	145
Total equity		**2,597**	**3,065**
Non-current liabilities			
Debt	23	1,931	1,950
Post-employment benefits	25	363	327
Provisions	24	215	283
Deferred tax liabilities	9	27	25
Income tax payable	9	118	111
Other liabilities	21	182	160
Total non-current liabilities		**2,835**	**2,855**
Current liabilities			
Debt, including bank overdrafts	23	77	83
Derivative financial liabilities	29	44	42
Income tax payable	9	16	21
Trade and other payables	19	2,334	1,859
Provisions	24	140	168
Other liabilities	21	213	194
Liabilities from assets classified as held for sale		–	–
Total current liabilities		**2,824**	**2,367**
Total liabilities and total equity		**8,256**	**8,286**

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	2021	2022
Cash flows from operating activities			
Net income		407	532
Adjustments to reconcile net income to net cash provided by operating activities:		580	451
• Depreciation, amortization and impairment of non-financial assets	6	312	318
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates		-	-
• Net gain on sale of assets	7	(13)	(182)
• Net interest expense on debt, borrowings and other liabilities	8	26	41
• Income tax expense	9	83	145
• Additions to (releases of) provisions	24	133	110
• Additions to (releases of) post-employment benefits	25	18	10
• Other items		21	9
Decrease (increase) in working capital:		(2)	(248)
• Decrease (increase) in trade and other receivables	18	1	130
• Decrease (increase) in inventories	17	(458)	126
• Increase (decrease) in trade and other payables	19	479	(555)
• Increase (decrease) in other current assets and liabilities		(24)	52
Increase (decrease) in other non-current assets and liabilities		26	(24)
Utilizations of provisions	24	(187)	(157)
Utilizations of post-employment benefits	25	(34)	(41)
Net interest and financing costs paid		(27)	(39)
Income taxes paid		(59)	(99)
Net cash provided by (used for) operating activities		**704**	**376**
Cash flows from investing activities			
Net capital expenditures:		(91)	69
• Additions of intangible assets	15	(34)	(62)
• Capital expenditures on property, plant and equipment	13	(84)	(70)
• Proceeds from disposal of property, plant and equipment		27	201
Net proceeds from (cash used for) derivatives and other financial assets		29	(29)
Purchases of businesses, net of cash acquired	11	(30)	(297)
Proceeds from sale of businesses, net of cash disposed of		-	-
Net cash provided by (used for) investing activities		**(91)**	**(256)**

14.4 Consolidated statement of cash flows (continued)

	Note	2021	2022
Cash flows from financing activities			
Dividend paid		(354)	(188)
Proceeds from issuance of debt	23	633	217
Repayment of debt	23	(1,064)	(276)
Purchase of treasury shares		(92)	(48)
Net cash provided by (used for) financing activities		**(876)**	**(295)**
Net cash flows		**(263)**	**(175)**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts		80	3
Cash and cash equivalents and bank overdrafts at the beginning of the period		1,030	847
Cash and cash equivalents and bank overdrafts at the end of the period	29	**847**	**676**

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 differences	Cash flow hedges	Treasury shares	Total share-holders' equity	Non-controlling interests	Equity
Balance as at January 1, 2021	**1**	**2,201**	**387**	**(337)**	**17**	**(74)**	**2,196**	**124**	**2,321**
Net Income	–	–	397	–	–	–	397	9	407
Other comprehensive income (loss)	–	–	16	257	(20)	–	253	12	265
Total comprehensive income (loss)	**–**	**–**	**413**	**257**	**(20)**	**–**	**650**	**22**	**671**
Dividend distributed	–	–	(343)	–	–	–	(343)	(8)	(351)
Purchase of treasury shares	–	–	7	–	–	(83)	(77)	–	(77)
Delivery of treasury shares	–	(60)	28	–	–	32	–	–	–
Share-based compensation plans	–	31	–	–	–	–	31	–	31
Income tax share-based compensation plans	–	2	–	–	–	–	2	–	2
Balance as at December 31, 2021	**1**	**2,174**	**491**	**(80)**	**(2)**	**(126)**	**2,459**	**138**	**2,597**
Balance as at January 1, 2022	**1**	**2,174**	**491**	**(80)**	**(2)**	**(126)**	**2,459**	**138**	**2,597**
Net Income	–	–	523	–	–	–	523	9	532
Other comprehensive income (loss)	–	–	11	147	(18)	–	140	3	143
Total comprehensive income (loss)	**–**	**–**	**534**	**147**	**(18)**	**–**	**663**	**12**	**675**
Dividend distributed	–	–	(182)	–	–	–	(182)	(6)	(188)
Purchase of treasury shares	–	–	–	–	–	(48)	(48)	–	(48)
Delivery of treasury shares	–	(59)	16	–	–	42	–	–	–
Share-based compensation plans	–	23	–	–	–	–	23	–	23
Hyperinflation adjustment	–	–	5	–	–	–	5	–	5
Balance as at December 31, 2022	**1**	**2,139**	**864**	**67**	**(20)**	**(131)**	**2,920**	**145**	**3,065**

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

I 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 as at December 31, 2022, 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 28, 2023, and will be submitted for adoption to the Annual General Meeting of Shareholders on May 16, 2023. The Consolidated financial statements have been prepared on a going concern basis.

Basis of measurement

The Consolidated 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 million, 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, insurance cover asset recoverability, employee benefit obligations, inventory valuation and obsolescence provision, estimation of loss allowance for expected credit losses, leases, 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.

Russia-Ukraine war

The outbreak of the war in Ukraine impacted Signify's business in Russia and Ukraine. As a result of the war, Signify reported EUR 20 million of charges in the consolidated statement of income. The most significant items are further described as follows:

Inventories

Signify reviewed the impact that the war has on its ability to control and sell inventories in the region. The analysis resulted in a write-down of inventories of EUR 3 million for the year.

Trade receivables

Signify reviewed the collectability of its trade accounts receivables and recorded EUR 7 million of impairment. The impairment was mainly due to the increased risk of uncollectible receivables.

Climate-related matters

The impact of climate change generates opportunities as well as challenges for Signify’s existing and future lighting products and solutions portfolio. As the world leader in lighting, and an industry front runner in sustainability, Signify has fully integrated sustainability into its 5 Frontiers strategy, driving five growth areas to help address the world’s greatest sustainability challenges: climate action, circular economy, food availability, safety & security, and health & well-being. As a result, Signify's portfolio is well-positioned to anticipate risks and opportunities related to climate change.

Digital Solutions and Digital Products

Digital Solutions and Digital Products benefit from the phasing out of conventional lighting and the move to more energy-efficient LED and connected lighting. Stimulus packages, such as the EU Green Deal and the US stimulus package, are pushing for the use of more sustainable technologies. This creates a multi-year opportunity for Signify, as its product portfolio is well-positioned to capture growth from this drive for sustainability.

Conventional Products

The conventional market is expected to continue to decline in the coming years due to the ongoing adoption of LED lighting technologies and legislation banning certain technologies. While the overall conventional market continues to decline, Conventional Products’ focus is on winning market share in key segments and markets to remain market leader. This position supports the company's drive to lead the transition to connected LED products. The division continues to proactively manage its manufacturing footprint and reduce operational costs to optimize free cash flow.

Developments on climate-related matters for the Division were considered in preparing the consolidated financial statements. Specifically, the key assumptions used in the annual goodwill impairment test for Conventional Products have taken into account external market assumptions, including potential phase out of products due to market conditions and legislation likely to be ratified. In the 2022 annual goodwill test, the estimated recoverable amount of Conventional Products exceeded its carrying value, therefore no impairment loss was recognized. For further details, refer to note 15, Intangible assets.

Macroeconomic environment

The current macro economic environment poses challenges which are closely monitored by Signify. Key challenges include: supply chain disruptions, increase of interest rates, business climate uncertainties and COVID-19 related lockdowns. The key areas impacted by these challenges are further described below.

Supply chain disruptions

In response to the global supply chain disruptions, Signify has been implementing several mitigating actions. As a result of these actions, the availability of components has improved. However, the supply chain was still affected by longer supplier lead times, which in turn impacted Signify's inventory levels. For further details on Signify's inventories, refer to note 17, Inventories.

Goodwill

The annual impairment test performed in the fourth quarter did not result in an impairment loss being recognized. 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 and supply chain disruptions. For further details, refer to note 15, Intangible assets.

Intangible assets, other than goodwill

Signify monitors changes in the economic environment which could indicate that the carrying amount of the asset may not be recoverable, and performs an impairment test when an impairment trigger is identified. No impairment was identified based on procedures performed.

Assumptions for post-employment benefits

Macroeconomic developments 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, 2022, based on the most recent assumptions. Details of the underlying assumptions used can be found in note 25, Post-employment benefits.

Deferred taxes

In the context of macroeconomic developments, 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

New and amended standards adopted

Signify has applied the following amendments for the first time to its annual reporting period commencing January 1, 2022:

- Amendments to IFRS 3 - Reference to the Conceptual Framework.
- Amendments to IAS 37 - Onerous Contracts – Costs of Fulfilling a Contract.
- Annual improvements to IFRS 2018-2020.

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

New and amended standards not yet adopted

Several new standards or amendments to existing standards have been published that are mandatory for reporting periods commencing on or after January 1, 2023. These standards have not been adopted early by Signify. The new standards or amendments 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 consistently applied by Signify to all periods presented in these Consolidated financial statements.

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.

Investments in associates

Signify’s investments in associates are accounted for using the equity method and are initially recognized 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 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 when the product is delivered and accepted, depending on the delivery conditions and incoterms. 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 accounts for cloud-enabled services, extended warranties and lifecycle services as separate performance obligations. Control over these services is transferred over time and revenue is recognized, in most cases, on a straight-line basis over the duration of the service period.

Transaction price

The transaction price is the amount of consideration to which Signify expects to be entitled to in exchange for transferring promised goods or services to a customer. The transaction price excludes amounts collected on behalf of third parties, such as sales taxes.

For contracts with multiple performance obligations, 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.

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.

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.

Other

Payments made to customers for distinct goods or services are excluded from revenue recognized and recorded as part of Selling, general and administrative expenses.

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 are recognized in the balance sheet.

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, which is mostly when the customer is billed.

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 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.

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.

Consideration received from customers for shipping and handling is recognized as Sales. Shipping and handling expenses related to sales to third parties are generally recorded as Selling, general and administrative expenses. When shipping and handling are distinct performance obligations, then the related expenses are recorded as Cost of 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.

Financial assets arising from insurance contracts are only recognized when it is virtually certain that reimbursement will be received if Signify settles the obligation. Signify recognizes the reimbursement as a separate financial asset.

Classification and measurement

The classification and subsequent measurement of financial assets and liabilities depends on Signify's business model for managing the financial assets and liabilities, the contractual terms of the cash flows and the solely payments of principal and interest (SPPI) test. Signify performs the analysis on an instrument-by-instrument basis. Financial assets and liabilities are classified into one of the following categories:

- Financial assets at amortized cost: The business model for these instruments is to hold them to collect contractual cash flows. This financial asset category mainly consists of Trade and other receivables. After initial recognition these financial assets are measured at amortized cost using the effective interest method, less loss allowance and net of discounts given or agreed to, if the offset requirements are met.
- Financial assets at fair value through profit or loss (FVTPL): The business model for these instruments is to hold them for trading. This financial asset category mainly consists of Signify's participations in Virtual Power Purchase Agreements and other Derivatives.
- Financial assets at fair value through other comprehensive income (FVOCI): The business model for these instruments is to hold them to collect contractual cash flows and to sell them. Fair value gains and losses are subsequently not reclassified to profit or loss following the derecognition of the investment. This category consists of minor equity investments.
- All financial liabilities except for financial liabilities at fair value through profit and loss are classified and subsequently measured at amortized cost. This financial liability category primarily consists of Debt and Trade and other payables. Financial liabilities at fair value through profit or loss mainly consists of Derivatives and Contingent consideration in a business acquisition, to which IFRS 3 applies. Contingent consideration is subsequently 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.

Translation exposure of foreign-currency equity invested in consolidated entities is generally not hedged. However, if a hedge is entered into, it is accounted for as a net investment hedge. Signify designates the 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, among 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.

The expected useful lives in years of intangible assets excluding goodwill are as follows:

Product development	from 2 to 5
Software	from 1 to 10
Technology	from 1 to 20
Customer relations	from 5 to 20
Brand names	from 5 to 20
Other	from 2 to 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 of disposal 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 costs 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 statement of income.

Past-service costs are recognized immediately in the Personnel costs in the Consolidated statement of income. 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 Consolidated 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 Consolidated 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.

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 adjustment of historical cost in purchasing power caused by inflation from the date of initial recognition to the balance sheet date. The hyperinflation adjustment is recognized directly in equity. Comparative amounts are not adjusted.

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 in years of property, plant and equipment are as follows:

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. Borrowings which are repaid within the quarter, with a maturity of less than three months, are reported on a net basis in cash flows from financing activities.

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 [5]	Digital Products	Conventional Products	Other [4]	Inter-segment elimination	Signify
2022						
Sales to external customers	4,231	2,469	793	22		7,514
Sales including intersegment	4,236	2,691	796	23	(232)	7,514
Depreciation and amortization [1]	(80)	(31)	(22)	(59)		(192)
EBITA [2]	**374**	**272**	**60**	**138**		**844**
EBITA as a % of sales	8.8%	11.0%	7.6%			11.2%
Amortization [3]						(126)
Income from operations	**256**	**265**	**60**	**137**		**718**
Financial income and expenses						(41)
Results from investments in associates						–
Income before taxes						**678**
2021						
Sales to external customers	3,524	2,452	861	23		6,860
Sales including intersegment	3,527	2,673	868	22	(230)	6,860
Depreciation and amortization [1]	(79)	(28)	(18)	(65)		(190)
EBITA [2]	**318**	**323**	**158**	**(164)**		**636**
EBITA as a % of sales	9.0%	13.2%	18.4%			9.3%
Amortization [3]						(122)
Income from operations	**205**	**316**	**158**	**(165)**		**514**
Financial income and expenses						(24)
Results from investments in associates						–
Income before taxes						**490**

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.
5 Includes Fluence since May 2, 2022 and Pierlite since April 29, 2022.

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 [1]		Tangible and intangible assets [1, 2]	
	2021	**2022**	**2021**	**2022**
Netherlands	547	655	555	604
United States	2,136	2,522	2,311	2,639
China	567	517	329	299
Germany	382	421	12	9
Other countries	3,229	3,398	710	709
Total countries	**6,860**	**7,514**	**3,917**	**4,261**

1 Includes Fluence since May 2, 2022 and Pierlite since April 29, 2022.
2 Includes goodwill.

Disaggregated revenue information

Total sales consist primarily of the sales of goods to customers (2022: 97%, 2021: 96%). Remaining sales include revenue from services, and sales- and usage-based royalties. The amount of revenue recognized for the year ended December 31, 2022, from performance obligations satisfied (or partially satisfied) in previous periods, amounts to EUR 64 million (2021: EUR 47 million).

Sales by market:

	2021	**2022**
Europe	2,130	2,230
Americas	2,581	2,978
Rest of the world [1]	1,606	1,709
Global businesses [2]	543	597
Total	**6,860**	**7,514**

1 Includes Pierlite since May 2, 2022.
2 Includes Fluence since April 29, 2022.

4 Income from operations

	Note	2021	2022
Sales	3	6,860	7,514
Cost of materials used		(2,916)	(3,410)
Employee benefit expenses	5	(1,798)	(1,790)
Depreciation and amortization	6	(312)	(318)
Shipping and handling		(371)	(460)
Advertising and promotion		(136)	(135)
Lease related expenses		(36)	(29)
Other operational costs		(788)	(861)
Other business income, net	7	11	208
Income from operations		**514**	**718**

Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain, among others, sales related expenses, 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	2021	2022
Salaries and wages		(1,111)	(1,216)
Social securities		(194)	(202)
Defined contribution plans		(74)	(75)
Cost of termination plans		(68)	(30)
Temporary personnel		(101)	(86)
Share-based compensation	27	(31)	(24)
Other		(218)	(156)
Total		**(1,798)**	**(1,790)**

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:

In FTEs

	2021	2022
Employees	33,056	31,693
Third party workers	4,698	3,619
Total [1]	**37,754**	**35,312**

[1] 2,117 FTEs work in the Netherlands (2021: 2,339); the remaining FTEs work abroad.

6 Depreciation, amortization and impairment

	Note	2021	2022
Property, plant and equipment	13	(165)	(167)
Internal-use software	15	(10)	(9)
Other intangible assets	15	(122)	(126)
Development costs	15	(14)	(17)
Total		**(312)**	**(318)**

7 Other business income and expenses

	2021	2022
Result on disposal of businesses:		
• Income	–	–
• Expense	–	(11)
Result on disposal of fixed assets:		
• Income	13	194
• Expense	–	(1)
Result on other remaining businesses:		
• Income	6	32
• Expense	(8)	(6)
Other business income and expenses	**11**	**208**
Total other business income	19	227
Total other business expense	(8)	(19)

In 2022, the result on disposal of fixed assets includes EUR 184 million income related to a sale of real estate in 'Other', in France. This real estate was recognized as Assets classified as held for sale, as of December 31, 2021. In 2021, EUR 10 million income is the result of a sale of real estate in Conventional Products, in India.

In 2022, the net result on other remaining businesses includes EUR 28 million income (2021: EUR 3 million expense) from the movements in the indemnification positions with Koninklijke Philips N.V. originating from the separation.

8 Financial income and expenses

	Note	2021	2022
Interest income		14	10
Change in fair value of financial assets at fair value through profit or loss	29	18	36
Other financial income		1	1
Financial income		**33**	**47**
Interest expense	23	(33)	(44)
Interest on the net defined-benefit obligation	25	(6)	(8)
Interest expense on lease liability	23	(7)	(7)
Change in fair value of financial assets at fair value through profit or loss	29	(2)	(9)
Net foreign exchange gains (losses)		(2)	(5)
Monetary gains (losses) [1]		-	(5)
Other financial expenses	23	(7)	(9)
Financial expenses		**(57)**	**(88)**
Financial income and expenses		**(24)**	**(41)**

[1] The monetary loss relates to hyperinflation in Turkey.

9 Income taxes

The components of income tax expense were as follows:

	2021	2022
Current tax expense	(78)	(76)
Prior year benefit (expense)	2	3
Current tax expense	**(76)**	**(73)**

	2021	2022
Origination and reversal of tax losses, tax credits and temporary differences	(28)	(76)
Change in tax losses, tax credits and temporary differences recognized	19	3
Tax rate changes	6	-
Prior year benefit (expense)	(3)	-
Deferred tax benefit (expense)	**(7)**	**(72)**

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 25.8% (2021: 25%). A reconciliation of the weighted average statutory income tax rate to the effective income tax rate is as follows:

	2021	%	2022	%
Income before taxes	**490**		**678**	
Weighted average statutory income tax rate	(110)	(22)%	(158)	(23)%
Non-deductible expenses	(14)	(3)%	(14)	(2)%
Tax incentives and exempt income	28	6%	22	3%
Deferred tax expense related to (de)recognition of deferred tax assets - net	19	4%	3	-%
Changes in the liability for uncertain tax positions	(4)	(1)%	7	1%
Prior year tax benefit (expense)	(1)	-%	3	-%
Changes in tax rates	6	1%	-	-%
Other	(7)	(1)%	(9)	(1)%
Income tax expense recognized in Consolidated statements of income	**(83)**	**(17)%**	**(145)**	**(21)%**

The weighted average statutory income tax rate increased by 1% in 2022 compared to 2021.

The effective tax rate was 21% in 2022 (2021: 17%), which is lower than the statutory income tax rate of 25.8% in the Netherlands. The difference is primarily due to the effect of non-taxable income and changes in the liabilities for uncertain tax positions, offset by the effect of non-deductible expenses .

For 2021, the line item "Changes in tax rates" includes a non-cash tax benefit of EUR 7 million related to the revaluation of the deferred tax assets following the statutory tax rate increase in the Netherlands. The effects of tax rate changes are included in the reported tax balances based on the information available per reporting date.

The increase in effective income tax rate in 2022 of 4% compared to 2021 is mainly due to lower non-cash benefits arising from changes in the valuation of our deferred tax assets.

Recognized deferred tax assets and liabilities

In millions of EUR	Assets	Liabilities	Net
2022			
Intangible assets	205	(75)	131
Property, plant and equipment	8	(46)	(38)
Inventories	52	(1)	51
Other receivables and assets	26	(14)	12
Provisions for pensions and other post-retirement	51	–	51
Provisions for termination benefits	3	(1)	3
Other provisions	48	–	48
Other liabilities	94	(24)	70
Deferred tax assets on tax attributes [1]	66	–	66
Total allocations	**554**	**(161)**	**393**
Set-off of deferred tax	(136)	136	–
Net deferred tax assets	**418**	**(25)**	**393**
2021			
Intangible assets	252	(83)	169
Property, plant and equipment	12	(44)	(32)
Inventories	49	(1)	48
Other receivables and assets	23	(9)	15
Provisions for pensions and other post-retirement	58	–	58
Provisions for termination benefits	6	–	6
Other provisions	41	–	41
Other liabilities	94	(19)	75
Deferred tax assets on tax attributes [1]	73	–	73
Total allocations	**609**	**(155)**	**454**
Set-off of deferred tax	(128)	128	–
Net deferred tax assets	**481**	**(27)**	**454**

[1] Tax loss carryforwards (including tax credit carryforwards).

The net deferred tax assets of EUR 393 million (2021: EUR 454 million) consist of deferred tax assets of EUR 418 million (2021: EUR 481 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 25 million (2021: EUR 27 million) in countries with a net deferred tax liability position. An amount of EUR 105 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 2022 and 2021 were as follows:

In millions of EUR	Balance as at January 1	Recognized in income	Other	Balance as at December 31
2022				
Intangible assets	169	(31)	(7)	131
Property, plant and equipment	(32)	(11)	5	(38)
Inventories	48	(1)	4	51
Other receivables and assets	15	(3)	1	12
Provisions:				
• pensions and other post-retirement benefits	58	(6)	(2)	51
• termination benefits	6	(3)	–	3
• other provisions	41	3	3	48
Other liabilities	75	(13)	8	70
Tax loss carryforwards (including tax credit carryforwards)	73	(7)	–	66
Net deferred tax assets	**454**	**(72)**	**12**	**393**
2021				
Intangible assets	188	(12)	(7)	169
Property, plant and equipment	(23)	(14)	5	(32)
Inventories	39	4	5	48
Other receivables and assets	32	(16)	(1)	15
Provisions:				
• pensions and other post-retirement benefits	66	(7)	(1)	58
• termination benefits	9	(2)	(1)	6
• other provisions	29	11	1	41
Other liabilities	56	11	8	75
Tax loss carryforwards (including tax credit carryforwards)	55	18	1	73
Net deferred tax assets	**452**	**(7)**	**9**	**454**

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.

At December 31, 2022, 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 (2021: EUR 271 million).

At December 31, 2022, net operating loss carryforwards expire as follows:

Expiry year operating loss carryforwards

Total	2023	2024	2025	2026	2027	After 2027 but not unlimited	Unlimited
632	1	1	1	16	2	25	586

Unrecognized tax losses and tax credits

At December 31, 2022, the amount of operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet was EUR 476 million (2021: EUR 464 million).

Out of EUR 476 million, an amount of EUR 451 million should not be limited in time, EUR 1 million will expire by 2023, EUR 1 million will expire by 2024, EUR 1 million will expire by 2025, EUR 4 million will expire by 2026, EUR 1 million will expire by 2027 and EUR 17 million expires after 2027, but carryforward is limited in time.

Unrecognized deductible temporary differences

At December 31, 2022, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 105 million (2021: EUR 106 million).

Classification of the income tax payable and receivable is as follows:

In millions of EUR	2021	2022
Income tax receivable under other current assets	24	56
Income tax receivable under other non-current assets	8	1
Income tax payable under current liabilities	(16)	(21)
Income tax payable under non-current liabilities	(118)	(111)

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.

Global tax developments

Signify notes developments in relation to the OECD inclusive Framework on Base Erosion and Profit Shifting. Recently, EU member states reached agreement in principle to implement at EU level a 15% global minimum tax (so-called “Pillar Two”) to be transposed into member states’ national law by the end of 2023. The other OECD member states must also enact domestic legislation implementing the OECD’s proposed rules for them to become law. It is too early to assess the overall impact of these potential changes, as these and other tax laws and related regulations are yet to be enacted, revised, and implemented.

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 because of potential permanent establishments in countries where new operations are started or business models are altered. This could happen when operations in a country involve a foreign Signify organization. There is a risk that tax claims could arise on these operations in both countries.

When Signify has cross-border operations, there is a risk that tax claims will arise in all relevant countries.

Assessing the amount of tax liabilities for these tax uncertainties is highly judgmental and the timing of possible outflows, if any, is uncertain. Signify has considered the merits of its filing position in its overall evaluation of potential tax liabilities and believes it has adequate tax liabilities recorded in its consolidated financial statements for exposures on these matters. Based on its evaluation of the potential tax liabilities and the merits of Signify's filing positions, it is unlikely that potential tax exposures over the amounts currently recorded as liabilities in its Consolidated financial statements will be material to its financial condition or future results of operations.

With regard to the uncertainties, an 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 16 million (2021: EUR 52 million) and an indemnification receivable of EUR 5 million (2021: EUR 10 million) is recorded. The total net indemnification liability decreased in 2022 by EUR 31 million mainly due to settlements and expirations.

Tax uncertainties also include exposures with a risk assessment which are deemed lower than probable, but possible. The best estimate of the maximum amount in connection with these uncertainties is EUR 77 million. Signify believes that in connection with these uncertainties it is probable that no additional taxes will be due. Therefore, no income tax payable is recognized.

10 Earnings per share

	2021	2022
Net income attributable to shareholders of Signify N.V.	397	523
Weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	124,966,505	125,004,312
Plus incremental shares assumed from conversions of:		
• Performance shares	2,828,996	1,904,807
• Conditional shares	710,721	599,885
• Restricted shares	139,716	87,966
Diluted weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	128,645,938	127,596,971
in EUR		
• Basic	3.18	4.18
• Diluted	3.09	4.10

11 Acquisitions and divestments

Signify completed two acquisitions in 2022.

Acquisition of Fluence

On May 2, 2022, Signify completed the acquisition of 100% interest in Fluence Bioengineering, Inc (Fluence) and the purchase of certain related assets for a total consideration of EUR 257 million. The initial consideration was paid in cash. The transaction price did not include any contingent and/or deferred considerations. The overall cash position of Fluence on the transaction date was EUR 3 million.

Fluence is based in Austin, TX, United States and is a provider of agricultural lighting. The acquisition added Fluence's complementary technology and market segments to Signify's existing horticultural lighting operations and provided Signify with access to Fluence's strong multi-channel go-to-market approach in the attractive North American horticultural lighting market. As of May 2, 2022, Fluence was fully consolidated as part of Division Digital Solutions.

Acquisition-related transaction costs that were recognized in General and administrative expenses in 2021 and 2022 amounted to EUR 3 million, of which EUR 1 million relates to 2022.

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

	At acquisition date
Goodwill	258
Other intangible assets	20
Property, plant and equipment	3
Net deferred tax	15
Trade and other receivables	10
Inventories	30
Other assets	3
Cash	3
Trade and other payables	(20)
Other liabilities	(64)
Net assets acquired	**257**

The fair value of assets and liabilities at acquisition date is provisional subject to final purchase price adjustments and closing settlement procedures, which will be finalized in early Q2, 2023. The opening balance positions subject to change are mainly related to the valuation of certain liabilities and goodwill where accounting of the fair value assumed is still preliminary. Receivables and other current assets are assumed to be valued against their fair value. Other intangible assets acquired of EUR 20 million relate mainly to Brand names.

Goodwill recognized for the amount of EUR 258 million is primarily attributable to the growth of both the bio-based and horticulture markets and in addition, the future expansion plans for Fluence. The expansion plans are mainly driven by the changing regulatory environment in the United States and Europe. Goodwill is also attributable to the synergies expected to be achieved from integrating Fluence within Division Digital Solutions. The goodwill recognized is expected to be deductible for tax purposes.

From the acquisition date, the contribution of Fluence to the sales and net income of the Company was not material. If the acquisition had taken place on January 1, 2022, sales and net income for the Company are considered not material for the consolidated financial statements.

Acquisition of Pierlite

On April 29, 2022, Signify completed the acquisition of Pierlite, strengthening its position in the Australian and New Zealand lighting markets. The acquisition involved a total consideration of EUR 43 million, resulting in EUR 22 million goodwill and EUR 17 million intangible assets. Pierlite is consolidated within Division Digital Solutions. The acquisition is considered not material to the consolidated financial statements.

There were no divestments in 2022.

I2 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 France	France
Signify GmbH	Germany
Signify Holding B.V.	Netherlands
Signify Netherlands B.V.	Netherlands
Signify North America Corporation	United States of America
Signify Poland Sp. z.o.o.	Poland

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 installations	Other equipment	Prepayments and construction in progress	Total
Book value as at January 1, 2021	**447**	**147**	**63**	**51**	**708**
Of which right-of-use assets	192	–	15	–	207
Change in book value:					
Capital expenditure	69	7	14	69	160
Of which right-of-use assets	69	–	10	–	79
Assets available for use	7	47	18	(72)	–
Acquisitions	2	–	–	–	2
Of which right-of-use assets	1	–	–	–	1
Additions	**78**	**54**	**32**	**(2)**	**162**
Sales and disposals	(12)	(1)	–	–	(14)
Of which right-of-use assets	(4)	–	–	–	(4)
Divestments and transfers to assets classified as held for sale	(6)	–	–	–	(6)
Of which right-of-use assets	–	–	–	–	–
Depreciation	(81)	(40)	(37)	–	(158)
Of which right-of-use assets	(54)	–	(8)	–	(63)
Impairment	(6)	(3)	(1)	(2)	(12)
Of which right-of-use assets	(4)	–	–	–	(4)
Reversal of impairment	3	1	–	1	5
Of which right-of-use assets	1	–	–	–	1
Translation differences and other movements	26	9	1	1	38
Of which right-of-use assets	11	–	–	–	11
Total changes	**2**	**20**	**(5)**	**(2)**	**16**
Balance as at December 31, 2021					
Cost	985	1,195	458	49	2,686
Accumulated depreciation / impairment	(535)	(1,027)	(399)	–	(1,962)
Book value	**450**	**167**	**59**	**49**	**724**
Of which right-of-use assets	212	–	18	–	229

	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress	Total
Book value as at January 1, 2022	**450**	**167**	**59**	**49**	**724**
Of which right-of-use assets	212	–	18	–	229
Change in book value:					
Capital expenditure	61	2	15	58	136
Of which right-of-use assets	55	–	10	–	65
Assets available for use	19	24	14	(57)	–
Acquisitions	6	1	1	1	9
Of which right-of-use assets	5	–	–	–	5
Additions	**86**	**27**	**30**	**1**	**145**
Sales and disposals	(12)	(2)	(1)	–	(15)
Of which right-of-use assets	(10)	–	–	–	(10)
Divestments and transfers to assets classified as held for sale	(4)	–	–	–	(4)
Of which right-of-use assets	–	–	–	–	–
Depreciation	(83)	(38)	(33)	–	(155)
Of which right-of-use assets	(58)	–	(9)	–	(67)
Impairment	(5)	(8)	(1)	–	(14)
Of which right-of-use assets	(2)	–	–	–	(2)
Reversal of impairment	1	1	–	–	2
Of which right-of-use assets	1	–	–	–	1
Translation differences and other movements	13	(7)	10	1	16
Of which right-of-use assets	8	–	–	–	8
Total changes	**(3)**	**(28)**	**5**	**2**	**(25)**
Balance as at December 31, 2022					
Cost	1,019	1,100	472	50	2,641
Accumulated depreciation / impairment	(573)	(961)	(408)	–	(1,942)
Book value	**446**	**139**	**64**	**50**	**699**
Of which right-of-use assets	211	–	19	–	230

The impairment losses were mainly driven by manufacturing footprint rationalization. Additions of right-of-use assets primarily include new and renewed lease contracts.

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	2021	2022
Interest expense on lease liability	8	(7)	(7)
Total cash outflow for leases	4, 8, 23	(119)	(107)

15 Intangible assets

	Goodwill	Customer relationships	Technology based	Brand names	Product development	Software	Other	Total
Balance as at January 1, 2021								
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**
Change in book value:								
Additions	–	–	1	–	21	17	–	38
Amortization	–	(77)	(27)	(18)	(14)	(10)	(1)	(146)
Acquisitions	28	5	4	2	–	–	1	41
Impairment	–	–	–	–	(1)	–	–	(1)
Translation differences and other movements	185	35	2	12	1	–	–	235
Total changes	**213**	**(37)**	**(20)**	**(4)**	**8**	**7**	**1**	**167**
Balance as at December 31, 2021								
Cost	3,167	1,522	413	440	163	75	10	5,790
Accumulated depreciation / impairment	(703)	(1,107)	(308)	(298)	(129)	(45)	(6)	(2,597)
Book value	**2,464**	**415**	**105**	**142**	**34**	**30**	**4**	**3,193**
Change in book value:								
Additions	–	–	–	–	37	17	3	57
Amortization	–	(88)	(23)	(12)	(17)	(9)	(3)	(152)
Acquisitions	280	15	–	22	–	–	–	317
Impairment	–	–	–	–	–	–	–	–
Translation differences and other movements	117	21	(15)	8	–	–	15	146
Total changes	**398**	**(53)**	**(38)**	**18**	**20**	**8**	**15**	**368**
Balance as at December 31, 2022								
Cost	3,589	1,604	387	481	160	89	38	6,348
Accumulated amortization / impairment	(728)	(1,242)	(320)	(322)	(106)	(51)	(19)	(2,787)
Book value	**2,861**	**362**	**67**	**160**	**54**	**38**	**19**	**3,562**

Goodwill

Goodwill as of December 31, 2022 was EUR 2,861 million. During the year ended December 31, 2022, translation difference of EUR 117 million was mainly due to the change in the USD/EUR rate, which impacted the goodwill denominated in USD. Goodwill related to the acquisition of Fluence and Pierlite was EUR 258 million and EUR 22 million respectively, and was recognized in 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.

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, 2021, and December 31, 2022. The goodwill allocated to each of the cash-generating units as of December 31, 2021, and December 31, 2022, is presented below.

	2021	2022
Digital Solutions	2,089	2,482
Digital Products	315	317
Conventional Products	59	63
Book value	**2,464**	**2,861**

The basis of the recoverable amount used of the cash-generating units is the value in use. In the annual impairment test performed in the fourth quarter of 2022, 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 cover an initial period with specific estimates from 2023 to 2025. 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 current market conditions, and industry long-term growth averages. The applied discount rates are determined based on the weighted average cost of capital which reflects the risks relevant to the cash-generating units.

Cash flow projections for the impairment tests in 2022 and 2021 were based on the key assumptions included in the table below:

Key assumptions in %

	Compound sales growth rate [1]		
	Extra polation period	**Used to calculate terminal value**	**Pre-tax discount rates**
Digital Solutions 2022	2.8	0.3	11.6
Digital Solutions 2021	2.6	0.3	11.0

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period.

Given the weaker external environment, the impairment test of Q4 2022 assumes a lower growth expectation in 2023 compared to previous year, with a gradual recovery in 2024. Signify performed a sensitivity analysis and noted that a reasonably possible change in key assumptions will not result in an impairment.

Other intangible assets

The additions for 2022 contain internally generated assets of EUR 37 million for product development and EUR 16 million for software. In 2022, acquired other intangible assets are customer relationships of EUR 15 million and brand names of EUR 22 million which relates to Fluence and Pierlite acquisition in Q2 2022.

The capitalized product development costs and software, for which amortization has not yet commenced, amounted to EUR 50 million as of December 31, 2022 (December 31, 2021: EUR 27 million).

As of December 31, 2022, the carrying amount of the customer relationships originating from the Genlyte acquisition in 2007 was EUR 2 million (USD 2 million) with a remaining amortization period of 0.1 years (2021: EUR 37 million, USD 42 million; 1.1 years). The carrying amount of the customer relationships originating from the Cooper Lighting acquisition in 2022 was EUR 276 million (USD 294 million) with a remaining amortization period of 17.8 years (2021: EUR 288 million, USD 326 million; 18.8 years).

16 Objectives, policies and processes for managing capital

Signify generated cash flows from operating activities of EUR 376 million in 2022. Signify reduced its net leverage ratio to 1.3 at December 31, 2022 (December 31, 2021: 1.4). Excluding the acquisitions of Fluence and Pierlite, Signify reached its goal of reducing its net debt/EBITDA ratio to 1.0 at the end of 2022. Signify remains committed to maintaining a robust capital structure and an investment grade credit rating.

Signify manages free cash flow performance by continuous structural working capital initiatives and gradual costs optimization, including post-merger integration costs related to previous acquisitions.

Signify is subject to certain debt covenants, for details refer to note 23, Debt.

Free cash flows for the year ended December 31, 2022 and comparative information are presented below:

	2021	2022
Cash flows from operating activities	704	376
Cash flows from investing activities	(91)	(256)
Cash flows before financing activities	**613**	**119**
Cash flows from operating activities	704	376
Net capital expenditures:		
• Additions of intangible assets	(34)	(62)
• Capital expenditures on property, plant and equipment	(84)	(70)
• Proceeds from disposal of property, plant and equipment	27	201
Free cash flows	**614**	**445**

Working capital position as at December 31, 2022 and comparative information are presented below:

	2021	2022
Inventories	1,410	1,361
Trade and other receivables	1,183	1,102
Trade and other payables	(2,334)	(1,859)
Other working capital items	(8)	(41)
Working capital	**250**	**564**

17 Inventories

	2021	2022
Raw materials and components	508	552
Finished goods	901	809
Total	**1,410**	**1,361**

The write-down of inventories to net realizable value amounted to EUR 72 million for the year ended December 31, 2022 (2021: EUR 23 million), which includes EUR 16 million related to restructuring programs.

18 Trade and other receivables

	2021	2022
Trade receivables	1,137	1,037
Other receivables	46	66
Total receivables, net of value allowance	**1,183**	**1,102**

The aging of Trade receivables, representing current and overdue, net of loss allowance, was as follows:

	2021	2022
Current	1,064	982
Overdue 1-30 days	36	23
Overdue 31-180 days	38	31
Overdue >180 days	–	–
Trade receivables, net	**1,137**	**1,037**

The changes in loss allowance for accounts receivable are as follows:

	2021	2022
Balance as at January 1	**(94)**	**(76)**
Additions charged to expense	–	(11)
Utilizations	23	–
Translation differences and other movements	(5)	(7)
Balance as at December 31	**(76)**	**(94)**

As per December 31, 2022, the loss allowance for accounts receivable included allowances for individually impaired receivables of EUR 85 million (2021: EUR 69 million).

19 Trade and other payables

	2021	2022
Payables to suppliers	1,611	1,242
Amounts payable to employees	233	151
Customer rebates and refunds related	209	220
Marketing and sales related	97	90
Materials and fixed assets related	59	47
Other payables	124	108
Trade and other payables	**2,334**	**1,859**

Certain Signify suppliers factor their trade receivables from Signify with third parties through supplier finance arrangements. As of December 31, 2022, approximately EUR 172 million (2021: EUR 147 million) of the Signify accounts payable were known to have been sold onward under such arrangement whereby Signify confirms invoices. Signify continues to recognize these liabilities as trade payables and will settle the liabilities in line with the original payment terms of the related invoices.

20 Other assets

In millions of EUR	2021	2022
Contract assets	53	45
Indirect taxes	74	73
Prepayments	51	42
Other assets	81	42
Total	**259**	**201**
From which current	192	161
From which non-current	67	40

Other assets include indemnification balances resulting from the separation from Koninklijke Philips N.V. of EUR 16 million (2021: EUR 32 million) and other assets.

21 Other liabilities

	2021	2022
Contract liability	200	215
Other tax liabilities	85	78
Other liabilities	110	61
Total	**395**	**353**
From which current	213	194
From which non-current	182	160

Out of the total amount of EUR 200 million recognized in contract liabilities at the end of 2021 (2020: EUR 162 million), EUR 68 million has been recognized as revenue for the year ended December 31, 2022 (2021: EUR 53 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 include indemnification payables of EUR 19 million (2021: EUR 52 million) and other liabilities. The indemnification payables mainly relate 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, 2022, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2021: 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, 2022, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

A proposal will be submitted to the 2023 Annual General meeting of Shareholders to pay a dividend of EUR 1.50 per ordinary share, in cash, from the 2022 net income.

In May 2022, the Company distributed a dividend of EUR 1.45 per ordinary share, representing a total value of EUR 182 million including costs.

Treasury shares

The following table shows the movements in the outstanding number of shares over the last two years:

Number of shares

	2021	2022
Balance as at January 1	**125,581,371**	**124,902,004**
Purchase of treasury shares	(1,937,489)	(1,174,595)
Delivery of treasury shares	1,258,122	1,513,751
Balance as at December 31	**124,902,004**	**125,241,160**

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):

	2021	2022
Shares acquired	1,937,489	1,174,595
Average market price	EUR 43.08	EUR 40.89
Amount paid	EUR 83 million	EUR 48 million
Shares delivered	1,258,122	1,513,751
Average price (FIFO)	EUR 25.38	EUR 28.02
Cost of delivered shares	EUR 32 million	EUR 42 million
Total shares in treasury at year-end	**3,442,234**	**3,103,078**
Total cost	**EUR 126 million**	**EUR 131 million**

Legal reserves

In accordance with the Dutch Civil Code and statutory requirements in other countries, in certain circumstances legal reserves need to be established. Legal reserves are not available for distribution to the Company's shareholders. The currency translation reserve, cash flow hedging reserve and other reserves included in retained earnings include non-distributable amounts. If any reserve has a negative balance, distributions to shareholders are restricted to the extent of the negative amount.

The total distributable reserves as at December 31, 2022, amounted to EUR 2,589 million (2021: EUR 2,245 million). For further details of legal reserves, see note D, Shareholders' equity, in chapter 15, Signify N.V. financial statements.

23 Debt

	2021	2022
Term loan (EUR)	280	280
Term loan (USD)	199	211
Eurobonds	1,265	1,268
Lease liabilities	249	254
Other debt	11	19
Subtotal	**2,003**	**2,032**
Bank overdrafts	4	1
Gross debt	**2,007**	**2,033**
Cash and cash equivalents	(851)	(677)
Net debt (cash)	**1,156**	**1,356**
Total equity	**2,597**	**3,065**
Net debt and total equity	3,753	4,421
Net debt divided by net debt and total equity (in %)	31%	31%
Total equity divided by net debt and total equity (in %)	69%	69%

Movements of debt were as follows:

	Term loans	Eurobonds	Lease liabilities	Other debt	Bank overdrafts	Total
Balance as at January 1, 2021	**795**	**1,262**	**233**	**15**	**3**	**2,307**
Acquisitions	–	–	1	–	–	1
Financing cash flows:						
• New borrowings	630	–	–	3	–	633
• Repayment	(984)	–	(72)	(8)	–	(1,064)
Translation difference	36	–	11	–	–	47
Other movements [1]	2	3	76	–	1	82
Balance as at December 31, 2021	**479**	**1,265**	**249**	**11**	**4**	**2,007**
Balance as at January 1, 2022	**479**	**1,265**	**249**	**11**	**4**	**2,007**
Acquisitions	–	–	5	–	–	5
Financing cash flows:						
• New borrowings	–	–	–	217	–	217
• Repayment	–	–	(68)	(208)	–	(276)
Translation difference	12	–	2	–	–	14
Other movements [1]	–	3	66	–	(3)	66
Balance as at December 31, 2022	**491**	**1,268**	**254**	**19**	**1**	**2,033**

[1] Other movements include additions of leases which are non-cash transactions.

Term loan structure and a revolving credit facility

As of December 31, 2022, the Company had outstanding long-term loans amounting to EUR 280 million maturing in November 2024 and USD 225 million maturing in January 2025. In addition, the undrawn revolving credit facility (RCF) of EUR 500 million is maturing in January 2027.

The EUR term loan bears interest at a variable rate based on the relevant applicable EURIBOR plus a fixed margin of 0.15%. The USD term loan bears interest at a variable rate based on the relevant applicable USD LIBOR with zero floor plus a margin. As of December 31, 2022, the margin on the USD term loan was 0.75% and is subject to change, depending on the public credit rating of Signify assigned by rating agencies.

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 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.

Eurobonds

As of December 31, 2022, Signify had outstanding EUR 675 million of fixed rate notes due in May 2024 with an annual coupon of 2.000% and EUR 600 million of fixed rate notes due in May 2027 with an annual coupon of 2.375%.

Other debt

Other debt includes short term borrowings which Signify repays ultimately within one year. Borrowings which are drawn and repaid within the same quarter, with a maturity of less than three months, are reported on a net basis in the movement of other debt. These borrowings were taken to manage intra month and intra quarter working capital requirements.

24 Provisions

	Restruc-turing	Environ-mental	Product warranty	Legal	Other	Total
Balance as at January 1, 2021	**84**	**109**	**70**	**10**	**122**	**396**
Additions	81	9	32	2	45	169
Utilizations	(88)	(22)	(40)	(3)	(36)	(189)
Reclassifications	1	–	–	–	–	1
Releases	(17)	(2)	(1)	(1)	(12)	(33)
Changes in discount rate	–	1	–	–	(4)	(3)
Accretion	–	–	–	–	–	1
Translation differences and other movements	2	2	4	–	5	13
Balance as at December 31, 2021	**62**	**97**	**66**	**9**	**120**	**355**
Short-term	46	18	33	3	40	140
Long-term	16	79	33	7	80	215
Balance as at January 1, 2022	**62**	**97**	**66**	**9**	**120**	**355**
Acquisitions	–	–	53	–	7	60
Additions	38	17	48	108	31	242
Utilizations	(52)	(24)	(51)	(6)	(22)	(155)
Reclassifications	–	3	–	–	(17)	(14)
Releases	(13)	(6)	(1)	(2)	(7)	(28)
Changes in discount rate	–	4	–	–	(7)	(4)
Accretion	–	–	–	1	–	1
Translation differences and other movements	–	1	(1)	(6)	–	(6)
Balance as at December 31, 2022	**36**	**92**	**115**	**103**	**105**	**451**
Short-term	30	22	81	3	32	168
Long-term	6	70	34	101	73	283

Restructuring

During the year ended December 31, 2022, additions to restructuring provisions were mainly related to programs in Conventional Products and Digital Solutions. As at December 31, 2022, the provision includes the restructuring of the central organization, programs of Conventional Products in Belgium and other restructuring programs. Signify expects the provision will be utilized mainly within the 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.

Legal

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. Signify expects the provision will be mainly utilized within the next three years.

On October 5, 2022, a jury in trial court in Connecticut awarded compensation of USD 90 million in a lawsuit against Signify relating to a workplace accident that occurred in September 2017 in a warehouse leased and operated by a Signify customer, where a pallet of Signify products were pushed off a rack by a worker, operating a forklift at the warehouse, onto one of the customer's employees. Signify categorically disagrees with the jury's findings, which it believes are not supported by either the facts or the law. There has been no judgment issued by the trial court confirming this verdict and Signify will exercise all its rights to contest any improper verdict issued in this case.

Signify has a comprehensive global liability insurance and has received confirmation that the case is fully covered without reservation of rights, including interest and other costs. As a result, both the amount awarded and insurance cover were recognized without any net profit and loss impact. Since there was no net impact to profit and loss,this addition to legal provision and the corresponding movement in non-current financial assets were not presented as adjustments in the consolidated statement of cash flows. In the table above the liability for the amount awarded by the jury, (although not yet confirmed by the court) has been included as an addition to the legal provision. The insurance cover asset has been recognized as part of non-current financial assets.

Other

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

	2021			2022		
	Obligation	Plan assets	Net Liability	Obligation	Plan assets	Net Liability
Unites States	563	(475)	88	459	(351)	108
Germany	208	(15)	193	170	(15)	155
Other countries	133	(51)	82	112	(48)	64
Total countries	**904**	**(541)**	**363**	**741**	**(414)**	**327**

United States

The defined-benefit Hourly & Salaried Pension Plan in the US covers certain hourly workers and salaried workers hired before January 1, 2005 and has a net liability of EUR 47 million. 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 with a net liability of EUR 16 million and a post-retirement welfare plan with a net liability of EUR 45 million.

Signify reviewed the funding level of the Hourly & Salaried Pension Plan and decided that it would not make a contribution in 2022. Signify expects cash outflows of EUR 8 million in 2023 for the unfunded plans.

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 3 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 had an unfunded liability of EUR 153 million as at December 31, 2022. Signify expects cash outflows of EUR 17 million in 2023 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 2023.

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 plans with pension indexation.

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 bodies 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

	2021			2022		
	Obligation	Plan assets	Net Liability	Obligation	Plan assets	Net Liability
Balance as at January 1	**959**	**(569)**	**390**	**905**	**(541)**	**363**
Service cost	9	–	9	9	–	9
(Negative) past service cost	3	–	3	–	–	–
Admin expenses paid	–	1	1	–	1	1
Settlements	(20)	19	(1)	(8)	1	(8)
Plan amendments	–	–	–	(1)	–	(1)
Recognized in employee benefit expenses	(8)	20	12	1	2	2
Interest (cost) / income	18	(12)	6	23	(15)	8
Included in Statements of Income	**10**	**8**	**18**	**24**	**(13)**	**11**
Actuarial gains / (losses)						
• Demographic assumptions	5	–	5	(1)	–	(1)
• Financial assumptions	(35)	–	(35)	(165)	129	(36)
• Experience adjustment	(4)	15	11	22	–	22
Exchange rate differences	51	(41)	10	44	(33)	11
Included in Statements of comprehensive income	**18**	**(26)**	**(9)**	**(101)**	**96**	**(5)**
Employee contributions	1	(1)	–	1	(1)	–
Employer contributions	–	(6)	(6)	–	(7)	(7)
Benefits paid						
• Benefits paid directly by employer	(28)	–	(28)	(34)	–	(34)
• Benefits paid from plan assets	(53)	53	–	(52)	52	–
Reclassifications	(2)	–	(2)	–	–	–
Other	**(82)**	**46**	**(36)**	**(86)**	**44**	**(42)**
Balance as at December 31	**905**	**(541)**	**363**	**741**	**(414)**	**327**

During 2022, worldwide interest rates increased significantly and this has been reflected in higher discount rates. As such, most defined benefit plans experienced large gains on the financial assumptions. In the US, this was offset by losses on plan assets which are predominantly invested in corporate and government bonds and in Germany by losses due to pension increases largely resulting from price inflation.

Plan assets allocation

The asset allocation in Signify's pension plans at December 31 was as follows:

In millions of EUR	2021	2022
Debt securities	419	310
Equity securities	51	38
Other	71	67
Total assets	**541**	**415**

The assets in 2022 contained 15% unquoted assets. Plan assets in 2022 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-2021.
- Germany: Richttafeln 2018 G K. Heubeck.

The weighted averages of the assumptions used to calculate the defined-benefit obligation as of December 31, 2022 were as follows:

In %	2021	2022
Discount rate	2.3	4.8
Pension cost increases	0.4	0.5
Healthcare cost increases	0.5	0.5
Wage increases	0.4	1.1

The average duration of the defined-benefit obligation of the defined-benefit plans is 7.7 years.

For the defined-benefit plans in the US and Germany, the average duration is respectively 7.7 years and 7.4 years. The average discount rates for the plans in these countries are respectively 4.96% and 3.75%. The pension cost increase rate assumption for the German defined-benefit plans is 2.25%.

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.

	2021	2022
Increase		
Discount rate (1% movement)	(80)	(52)
Wage change (1% movement)	11	5
Pension indexation change (1% movement)	19	10
Longevity (see explanation)	40	20
Healthcare cost change (1% movement)	6	5
Decrease		
Discount rate (1% movement)	91	65
Wage change (1% movement)	(9)	(3)
Pension indexation change (1% movement)	(21)	(8)
Longevity (see explanation)	(33)	(28)
Healthcare cost change (1% movement)	(6)	(4)

Longevity also impacts the post-employment defined-benefit obligation which is illustrated in the above sensitivity table for the impact of a 10% increase and a 10% decrease in the assumed rates of mortality for Signify's major schemes. A 10% decrease in assumed mortality rates equals improvement of life expectancy by six months to a year. Vice versa, an increase in the assumed mortality rates equals reduction of life expectancy.

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

The total share-based compensation costs for the period ended December 31, 2022 amounted to EUR 24 million (period ended December 31, 2021: EUR 31 million)

Long-term Incentive Plan

Under the Signify Long-term Incentive Plan (LTI Plan), which is equity settled, eligible employees are granted both conditional 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 four measures, each one of them with an equal weight of 25% of the shares:

- Total shareholder return.
- Free cash flow.
- Sustainability.
- Return on capital employed.

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.

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 %

	2022
Risk-free interest rate	0.6%
Expected share price volatility	40%

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 is presented below.

Signify performance shares

	2021		2022	
EUR-denominated	Shares	Weighted average grant-date fair value	Shares	Weighted average grant-date fair value
Balance as at January 1	**3,380,119**	**20.14**	**3,085,771**	**24.51**
Granted	579,559	50.20	657,031	35.24
Vested	(954,446)	21.18	(1,188,103)	24.14
Forfeited	(177,453)	22.88	(112,046)	32.10
Performance adjustment	257,992	17.85	(917,348)	31.22
Balance as at December 31	**3,085,771**	**24.51**	**1,525,305**	**24.83**

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, 2022, estimated unrecognized costs related to non-vested performance shares amounted to EUR 19 million. These costs are expected to be recognized over a weighted-average period of 1.8 years.

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 is presented below.

Signify conditional shares

	2021		2022	
EUR-denominated	Shares	Weighted average grant-date fair value	Shares	Weighted average grant-date fair value
Balance as at January 1	**900,831**	**19.21**	**811,664**	**25.96**
Granted	224,345	46.65	260,205	32.97
Vested	(224,180)	21.60	(251,437)	21.87
Forfeited	(89,332)	20.92	(43,323)	29.90
Balance as at December 31	**811,664**	**25.96**	**777,109**	**29.41**

On December 31, 2022, estimated unrecognized costs related to non-vested conditional shares amounted to EUR 9 million. These costs are expected to be recognized over a weighted-average period of 1.8 years.

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 2022, Signify granted 51,108 restricted shares with weighted average grant date fair value of EUR 31.15.

On December 31, 2022, estimated unrecognized costs related to non-vested restricted shares amounted to EUR 1 million. These costs are expected to be recognized over a weighted-average period of 1.1 years.

28 Information on remuneration

In 2022, the total remuneration costs relating to the members of Key Management amounted to EUR 5,141,832 (2021: EUR 7,112,736).

Remuneration of the Board of Management

In 2022, the total remuneration costs relating to the members of the Board of Management amounted to EUR 4,379,057 (2021: EUR 6,428,236).

Remuneration costs of Key Management - the Board of Management

	2021	2022
Salary/Base compensation	2,123,337	2,187,040
Annual Incentive [1]	1,624,156	180,204
Long Term Equity-based Incentive [2]	1,962,627	1,331,037
Pension allowances	511,445	492,986
Pension scheme costs [3]	82,386	84,399
Other compensation [4]	124,285	103,391
Total costs	**6,428,236**	**4,379,057**

[1] Related to the performance in the year reported which are paid out in the subsequent year.
[2] Costs of performance shares and restricted shares are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.
[3] Comparatives for 2021 were revised to exclude the employee pension premium of EUR 1,941 for each of the Board of Management members.
[4] 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.

For further information on remuneration costs, see chapter 9, Remuneration report.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 762,775 (2021: EUR 684,500).

Remuneration of Key Management - the Supervisory Board in EUR

	2021	2022
Membership	495,000	523,225
Committees	162,000	162,050
Other compensation [1]	27,500	77,500
Total costs	**684,500**	**762,775**

[1] Relates to the allowance 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, liquidity risk, currency risk, commodity price risk, credit risk 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, 2021						
Non-current financial assets [1]	amortized cost	37	–	37	–	37
Unquoted equity shares	fair value (FVOCI)	3	–	3	3	3
Trade and other receivables [1]	amortized cost	1,183	–	1,183	–	1,183
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	59	(30)	28	2	59
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	18	–	18	3	25
Cash and cash equivalents		851	–	851	–	851
Debt (Eurobonds)	amortized cost	(1,265)	–	(1,265)	1	(1,355)
Debt (excluding Eurobonds) [1]	amortized cost	(743)	–	(743)	2	(743)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(45)	30	(14)	2	(45)
Trade and other payables [1]	amortized cost	(2,332)	–	(2,332)	–	(2,332)
Contingent considerations	fair value (FVTPL)	(2)	–	(2)	3	(2)
Balance as at December 31, 2022						
Non-current financial assets [1, 2]	amortized cost	117	–	117	–	117
Unquoted equity shares	fair value (FVOCI)	3	–	3	3	3
Trade and other receivables [1]	amortized cost	1,102	–	1,102	–	1,102
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	36	(21)	15	2	36
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	44	–	44	3	50
Cash and cash equivalents		677	–	677	–	677
Debt (Eurobonds)	amortized cost	(1,268)	–	(1,268)	1	(1,220)
Debt (excluding Eurobonds) [1]	amortized cost	(765)	–	(765)	2	(765)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(43)	21	(22)	2	(43)
Trade and other payables [1]	amortized cost	(1,856)	–	(1,856)	–	(1,856)
Contingent considerations	fair value (FVTPL)	(3)	–	(3)	3	(3)

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

2 Mainly includes the insurance cover asset as referred to in the legal section, in note 24, Provisions.

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.

This applies for Derivative financial assets not designated as hedging instruments, which mainly relate to Signify's participations in Virtual Power Purchase Agreements. These contracts are accounted for as financial instruments (FVTPL) under IFRS 9 and valued by an external valuator, on a quarterly basis. The fair value is calculated as the net forecasted cash in- or outflows discounted to the present value. The unrealized change in fair value of EUR 26 million (2021: EUR 16 million) is recorded in financial income or expense (note 8). Unobservable input data is the volume of generated wind power and the price curves of the respective electricity market.

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, 2022, Signify had a ratio of fixed-rate debt to total outstanding debt of approximately 75% (2021: 75%).

A sensitivity analysis conducted at reporting date shows that if interest rates were to increase instantaneously by 1% from their level of December 31, 2022, 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, 2022.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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	1,779	20	1,759	–
Interest on debt	115	47	68	–
Trade and other payables	1,859	1,859	–	–
Lease liability	279	69	173	36
Derivative liabilities	43	42	1	–
Off-balance sheet commitments	95	31	64	–
Purchase obligations	228	123	105	
Contractual cash obligations	**4,399**	**2,191**	**2,172**	**36**
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:

	2021	2022
Cash at banks and in hand	403	425
Short-term deposits	432	216
Other cash equivalents	17	35
Cash and cash equivalents	**851**	**677**
Bank overdrafts	(4)	(1)
Cash and cash equivalents and bank overdrafts	**847**	**676**

Signify has a EUR 500 million revolving credit facility that can be used for general purposes. As of December 31, 2022, Signify did not have any amounts drawn under this 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 exposures 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	4	(4)	(1,142)	750
USD	836	(619)	(193)	177
GBP	82	(54)	–	–
EUR [1]	73	(73)	(11)	11
CAD	143	(89)	–	–
SEK	58	(34)	–	–
CHF	88	(53)	–	–
AUD	62	(38)	–	–
NOK	37	(23)	–	–
SGD	40	(24)	–	–
NZD	34	(22)	–	–
HUF	1	(1)	(44)	28
JPY	33	(20)	–	–
PLN	61	(61)	(144)	106
Others	69	(51)	(26)	26
Total 2022	**1,621**	**(1,164)**	**(1,560)**	**1,098**
Total 2021	**2,024**	**(1,394)**	**(1,458)**	**1,085**

1 EUR exposures in non EUR denominated functional currencies.

As of December 31, 2022, a loss of EUR 27 million was deferred in equity as a result of these hedges (2021: loss of EUR 3 million). The result deferred in equity will be released to earnings mostly during 2023 at the time when the related hedged transaction affects the Consolidated statement of income. During 2022, EUR nil million (2021: 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, 2022, was an unrealized liability of EUR 14 million (2021: asset EUR 2 million). An instantaneous 10% increase in the value of euro against all currencies, with all other variables held constant, would lead to no substantial change in the value of the derivatives. The above sensitivity analysis includes a loss of EUR 4 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 4 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. As of December 31, 2022, the fair value of these hedges was an unrealized asset of EUR 6 million (2021: asset EUR 8 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 22 million in the value of the derivatives.

Translation exposure of foreign-currency equity invested in consolidated entities is generally not hedged. However, if a hedge is entered into, it is accounted for as a net investment hedge. During 2022, net investment hedges consisting of foreign currency forward contracts with nominal amount of USD 150 million matured. These hedges partially mitigated foreign currency translation risk arising from the net assets of USD functional currency subsidiaries. These hedges were fully effective, as such there was no ineffectiveness recognized in profit and loss in 2022. As at 31 December 2022, no net investment hedges were outstanding (2021: asset EUR 4 million). Signify may enter into further net investment hedges to partially offset these risks in the future.

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, 2022, Signify had EUR 44 million of commodity derivatives recognized in the Statement of financial position (2021: EUR 17 million). Change of the commodity price by 10% will lead to the commodity derivatives value change of EUR 9 million (2021: EUR 7 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, 2022, Signify had country risk exposure of EUR 2.9 billion in the United States, EUR 1.1 billion in the Netherlands and EUR 531 million in China including Hong Kong. Countries where the risk exceeds EUR 200 million but was less than EUR 500 million are Belgium (EUR 493 million), Poland (EUR 422 million), France (EUR 241 million) and Saudi Arabia (EUR 205 million). Countries where the risk exceeded EUR 50 million but was less than EUR 200 million are Mexico, Spain, Canada, United Kingdom, Australia, India and Germany. 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 in the currency risk.

30 Events after the balance sheet date

In January 2023, Signify notified Koninklijke Philips N.V. our desire to extend the duration of the Trade Mark License Agreement (TMLA) for the second term commencing from February 1, 2026, to January 31, 2031. Under the TMLA, Signify is obliged to pay a royalty on the net turnover of all licensed products and services. The applicable royalty percentages for the extended term is 1% and the minimum annual guaranteed royalty payment is EUR 20 million.

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, the Netherlands. 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 chapter 14, Consolidated financial statements, note 2, Significant accounting policies 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	2021	2022
Other income		–	3
Financial income		5	14
Financial expenses		(38)	(44)
Share in results of subsidiaries		430	551
Net income	A	**397**	**523**

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	2021	2022
Non-current assets			
Financial assets	C	4,221	4,823
Total non-current assets		**4,221**	**4,823**
Current assets			
Derivative financial assets		–	16
Amounts due from subsidiaries		4	5
Total current assets		**4**	**21**
Total assets		**4,225**	**4,844**
Shareholders' equity	D		
Share Capital		1	1
Share premium		2,174	2,139
Legal reserve: currency translation differences		(80)	67
Legal reserve: cash flow hedges		(2)	(20)
Legal reserve: other		213	263
Other reserve: treasury shares		(126)	(131)
Other reserve: retained earnings		(119)	79
Net income		397	523
Total shareholders' equity		**2,459**	**2,920**
Non-current liabilities			
Debt	E	1,743	1,759
Provisions		1	–
Total non-current liabilities		**1,745**	**1,759**
Current liabilities			
Provisions		1	1
Other liabilities		–	1
Amounts owed to subsidiaries		–	142
Trade and other payables		20	22
Total current liabilities		**21**	**165**
Total liabilities and shareholders' equity		**4,225**	**4,844**

15.3 Statement of changes in equity

Statement of changes in equity
in millions of EUR

	Share capital	Share premium	Legal reserves: Currency translation differences	Legal reserves: Cash flow hedges	Legal reserves: Other	Other reserves: Treasury shares	Other reserves: Retained earnings	Net income	Total share-holders' equity
Balance as at January 1, 2021	**1**	**2,201**	**(337)**	**17**	**157**	**(74)**	**(95)**	**325**	**2,196**
Appropriation of prior year result	–	–	–	–	–	–	325	(325)	–
Net income	–	–	–	–	–	–	–	397	397
Net current period change	–	–	257	(20)	–	–	16	–	253
Legal reserves reclassifications	–	–	–	–	56	–	(56)	–	–
Dividend distributed	–	–	–	–	–	–	(343)	–	(343)
Purchase of Treasury shares	–	–	–	–	–	(83)	7	–	(77)
Delivery of Treasury shares	–	(60)	–	–	–	32	28	–	–
Share-based compensation plans	–	31	–	–	–	–	–	–	31
Income tax share-based compensation plans	–	2	–	–	–	–	–	–	2
Balance as at December 31, 2021	**1**	**2,174**	**(80)**	**(2)**	**213**	**(126)**	**(119)**	**397**	**2,459**
Balance as at January 1, 2022	**1**	**2,174**	**(80)**	**(2)**	**213**	**(126)**	**(119)**	**397**	**2,459**
Appropriation of prior year result	–	–	–	–	–	–	397	(397)	–
Net income	–	–	–	–	–	–	–	523	523
Net current period change	–	–	147	(18)	–	–	11	–	140
Legal reserves reclassifications	–	–	–	–	50	–	(50)	–	–
Dividend distributed	–	–	–	–	–	–	(182)	–	(182)
Purchase of Treasury shares	–	–	–	–	–	(48)	–	–	(48)
Delivery of Treasury shares	–	(59)	–	–	–	42	16	–	–
Share-based compensation plans	–	23	–	–	–	–	–	–	23
Hyperinflation adjustment	–	–	–	–	–	–	5	–	5
Balance as at December 31, 2022	**1**	**2,139**	**67**	**(20)**	**263**	**(131)**	**79**	**523**	**2,920**

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 mostly recharged to the subsidiaries of the Company.

Financial income of EUR 14 million (2021: EUR 5 million) relates mainly to interest income on a loan of USD 500 million to one of its subsidiaries. Financial expenses of EUR 44 million (2021: 38 million) relates mainly to interest paid on Debt and related amortization of expenses.

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.

	2021	2022
Audit fees [1]	6.4	6.5
• consolidated financial statements	4.0	3.7
• statutory financial statements	2.4	2.8
Audit-related fees	0.4	0.4
• sustainability assurance	0.3	0.3
• other	0.1	0.1
Total [2]	**6.8**	**6.9**

[1] The audit fees included in 2022 represent the fees in relation to the audit of the 2022 financial statements.
[2] Fees charged by the Dutch organization of EY were EUR 3.1 million (2021: 3.2 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.

In 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 470 million as at December 31, 2022, (2021: EUR 442 million) 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 are partly hedged and partly mitigated by the revaluation impact of the USD debt. For further details refer to note E, Debt.

The translation differences in 2022 of EUR 174 million (2021: EUR 293 million) relate to the impact of translating US dollar-denominated investments into euros.

The following table shows the movements in Financial assets.

	Investments	Loans	Total
Balance as at January 1, 2021	**3,745**	**407**	**4,151**
Dividends received	(632)	-	(632)
Share in results of subsidiaries	430	-	430
Translation differences	257	35	293
Other movements	(21)	-	(21)
Balance as at December 31, 2021	**3,779**	**442**	**4,221**
Dividends received	(96)	-	(96)
Share in results of subsidiaries	551	-	551
Translation differences	147	27	174
Other movements	(26)	-	(26)
Balance as at December 31, 2022	**4,353**	**470**	**4,823**

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, 2022, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2021: 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, 2022, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

A proposal will be submitted to the 2023 Annual General meeting of Shareholders to pay a dividend of EUR 1.50 per ordinary share, in cash, from the 2022 net income.

In May 2022, the Company distributed a dividend of EUR 1.45 per ordinary share, representing a total value of EUR 182 million including costs.

Treasury shares

The following table shows the movements in the outstanding number of shares over the last two years:

Number of shares

	2021	2022
Balance as at January 1	**125,581,371**	**124,902,004**
Purchase of treasury shares	(1,937,489)	(1,174,595)
Delivery of treasury shares	1,258,122	1,513,751
Balance as at December 31	**124,902,004**	**125,241,160**

The following table shows the share transactions to cover obligations arising from share-based compensation plans (for further details refer to chapter 14, Consolidated financial statements, note 27, Share-based compensation).

	2021	2022
Shares acquired	1,937,489	1,174,595
Average market price	EUR 43.08	EUR 40.89
Amount paid	EUR 83 million	EUR 48 million
Shares delivered	1,258,122	1,513,751
Average price (FIFO)	EUR 25.38	EUR 28.02
Cost of delivered shares	EUR 32 million	EUR 42 million
Total shares in treasury at year-end	**3,442,234**	**3,103,078**
Total cost	**EUR 126 million**	**EUR 131 million**

Legal reserves

In accordance with the Dutch Civil Code and statutory requirements in other countries, in certain circumstances legal reserves need to be established. Legal reserves are not available for distribution to the Company's shareholders. The currency translation reserve, cash flow hedging reserve and other reserves include non-distributable amounts. If any reserve has a negative balance, distributions to shareholders are restricted to the extent of the negative amount.

The following table shows the limitations in the distribution of Shareholders' equity and the total distributable reserves.

	2021	2022
Shareholders' equity per December 31	**2,459**	**2,920**
Issued share capital	1	1
Currency translation reserve	-	67
Restrictions on subsidiaries to transfer funds to parent company	143	142
Capitalized development costs reserve	53	84
Revaluation reserve	14	34
Reserves required by Articles of Association	3	3
Limitations in the distribution of shareholders' equity	**214**	**331**
Distributable reserves of December 31	**2,245**	**2,589**

E Debt

Term loan structure and a revolving credit facility

As of December 31, 2022, the Company had outstanding long-term loans amounting to EUR 280 million maturing in November 2024 and USD 225 million maturing in January 2025. In addition, the undrawn revolving credit facility (RCF) of EUR 500 million, maturing in January 2027.

The EUR term loan bears interest at a variable rate based on the relevant applicable EURIBOR plus a fixed margin of 0.15%. The USD term loan bears interest at a variable rate based on the relevant applicable USD LIBOR with zero floor plus a margin. As of December 31, 2022, the margin on the USD term loan was 0.75% and is subject to change, depending on the public credit rating of Signify assigned by rating agencies.

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 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.

Eurobonds

As of December 31, 2022, Signify had outstanding EUR 675 million of fixed rate notes due in May 2024 with an annual coupon of 2.000% and EUR 600 million of fixed rate notes due in May 2027 with an annual coupon of 2.375%.

Other debt

Other debt includes short term borrowings which Signify repays ultimately within one year. Borrowings which are drawn and repaid within the same quarter, with a maturity of less than three months, are reported on a net basis in the movement of other debt, these borrowings were taken to manage intra month and intra quarter working capital requirements.

For the movements in debt refer to the table below.

	Term loans	Eurobonds	Other debt	Total
Balance as at January 1, 2021	**794**	**1,262**	**-**	**2,056**
New borrowings	630	-	-	630
Repayments	(984)	-	-	(984)
Translation differences	36	-	-	36
Other movements	2	3	-	5
Balance as at December 31, 2021	**479**	**1,265**	**-**	**1,743**
New borrowings	-	-	189	189
Repayments	-	-	(189)	(189)
Translation differences	12	-	-	12
Other movements	-	3	-	3
Balance as at December 31, 2022	**491**	**1,268**	**-**	**1,759**

F Employees

The number of persons employed by the Company at year-end 2022 was three (2021: 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 chapter 14, Consolidated financial statements, note 28, Information on remuneration, 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 631 million as at December 31, 2022, (2021: EUR 756 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 in chapter 14, Consolidated financial statements, note 30, Events after the balance sheet date, which is deemed incorporated and repeated herein by reference.

On February 28, 2023, 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 16, 2023.

February 28, 2023

Board of Management
Eric Rondolat
Javier van Engelen
Maria Letizia Mariani

Supervisory Board
Arthur van der Poel
Gerard van de Aast
Pamela Knapp
Rita Lane
Frank Lubnau
Bram Schot

16 Sustainability statements

16.1 Approach to sustainability reporting

Our sustainability program Brighter Lives, Better World 2025 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 2025 program and commitments. We report our contribution to six SDGs: 3 - Good health and well-being; 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 within the financial, environmental and social domains, and we have made our approach towards long-term value creation transparent by preparing this Annual Report with key elements of the Value Reporting Foundation's Integrated Reporting framework and reporting in accordance with the GRI Sustainability Reporting Standards.

Signify is subject to E.U. Regulation (EU) 2020/852 (so called EU Taxonomy) and disclosures can be found in section 16.5, EU Taxonomy.

Our value creation model, presented in chapter 3, Create long-term value, 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 chapter 3, Creating long-term value, sections 3.2, Our impact, 3.3, Our value created, chapter 4, Corporate performance, section 4.2, Sustainability performance and sections 16.1 to 16.4 of the Sustainability statements. The section Responsible Tax Policy as included in sub-section 16.3.5, Business Ethics, the 2019 baseline assumptions, and the "Double the pace of the Paris Agreement" are excluded from the audit scope. To read the combined assurance statement, please refer to chapter 17, Combined independent auditor’s report.

16.1.1 Definition of Signify's strategic focus: the materiality assessment

Our approach

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 define materiality along two axes. The vertical axis captures the importance of each topic for external and internal stakeholders. The horizontal axis captures both our company's significant impacts on the economy, the environment and society, as well as the impact of externalities on our business. 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 while integrating the concept of double materiality.

As a first step in our materiality assessment, we use different sources of information to identify possible material topics. This includes external sources (media and trends analysis, on-going stakeholder engagement insights) as well as internal input. Since 2021, we integrate the top risks and opportunities identified during Signify's annual risk workshop to offer a complete overview of our financial and non-financial risks and opportunities and improve the link between sustainability, risk management, and strategy.

In 2022, we sent an ESG survey to 81 investors to capture further expectations from these stakeholders that are able to judge the financial materiality of our selected ESG topics. By the end of this first phase, we can list all material topics for Signify (17 topics in 2022). To prioritize these topics, Signify organizes dedicated stakeholder engagement activities. In 2022, this consisted of an online survey reaching out to more than 600 internal and external stakeholders (response rate of 15%) and internal strategic discussions. At the end of this process, we are able to identify the most material topics Signify should be reporting on.

Stakeholder engagement

On-going discussions

We engage with stakeholders considered most relevant to our company including customers, employees, suppliers, investors and analysts, municipalities and 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. Capturing perspectives from multiple stakeholder groups enables us to gain broader insights into value creation and contributes to the definition of our future strategy and plans.

In 2022, we further built our thought leadership on climate action and energy efficiency, given the emergence of the energy crisis triggered by the Russia-Ukraine war. The urgent need to save energy to reduce greenhouse gas (GHG) emissions and save costs, combined with the need to accelerate the electrification of heating and transport, led us to broaden our messaging. Part of Signify's strategic stakeholder engagements focused on the ambition levels and increased action on 2030 and 2050 climate goals with the economic recovery programs of the world's major economies.

Overview stakeholder engagement activities (non-exhaustive)

Stakeholder group	Stakeholder engagement processes	Examples of 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	Energy crisis and efficiency Satisfaction rates ESG-performance
Employees	Regular meetings, quarterly team surveys and employee development process, sustainability quarterly webcasts and engagement campaigns	Strategic alignment sessions Training & Development Diversity, equity & inclusion
Investors and analysts	Virtual roadshows, (ESG) investor conferences, investor webcasts, investor relations website, investors' perception study	Strategic alignment sessions ESG-performance
Suppliers	Supplier development, quality improvement projects, cooperation in industry working groups and strategic commodity management	ESG-performance Peer-learning Strategic alignment sessions
Governments, municipalities	Annual innovation experience, research projects, advocating activities, business development, GreenSwitch and Brighten America programs' implementation	Sustainable cities Energy crisis and 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 Growth for sustainability

We participated in a number of international events and conferences such as WEF Davos, the UN Science Policy Business Forum (preceding Stockholm+50), Climate Week NYC, the 13th Clean Energy Ministerial and COP27 in Sharm El Sheikh. During each of these conferences, we shared our messages and called for a doubling of the speed of action, highlighting the multiple benefits of switching to connected LED lighting and the potential of freeing-up electricity to support electrification of heating and transport.

Throughout the year, our contribution towards the European Green Deal and Recovery process further evolved and became more granular at market and country level in Europe, contributing to topline development. Concurrently, we developed our advocacy approaches in the USA (linked to the Infrastructure Investment & Jobs Act and the Inflation Reduction Act) and in China (linked to the 14th five-year plan). We further developed our “Green Switch” program and are in the process of rolling this out globally. In the USA, we launched a similar program called “Brighten America”, and “Green Switch China” has been introduced in China.

Our climate and energy advocacy continued through our partnerships with the Corporate Leaders Group Europe, the European Alliance to Save Energy in Europe and through NEMA, the Business Council for Sustainable Energy and Alliance to Save Energy in the US. Our team in China builds on China’s dual carbon commitment, leveraging our carbon neutral certification there. In 2022, we maintained our memberships and were active in many organizations, including the Carbon Disclosure Project (CDP), the World Economic Forum (WEF), the Responsible Business Alliance (RBA), and The Climate Group.

Materiality assessment engagement

For the dedicated stakeholder engagement related to our 2022 materiality assessment, we defined stakeholder representatives from each of the six identified groups: customers, employees, investors and analysts, suppliers, governments and municipalities and civil society organizations. Representatives have been selected based on expertise, constituency and geography. The broad range of stakeholders minimizes bias and creates a diverse insight. Stakeholders' expectations and inputs are captured at all phases of our materiality assessment. Through different engagement channels, we inform our stakeholders about our activities, the measures taken and the results.

2022 materiality assessment: conclusions

In 2022, as an outcome of the assessment, we confirm that Climate action and Human rights remain our two most material topics. Business ethics and Safety at work remain very important and Signify has robust processes in place. Social impact of light, Circular economy, Digitalization, and Geopolitical instability are important for Signify and are positioned on the right-hand side of the matrix. Biodiversity and Water are our two least material topics. The result of the materiality assessment has been reviewed by the Leadership Team and the Supervisory Board.

The details of our 2022 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 UN SDGs, and our material topics and their boundaries.

	Priority SDG	Material topic	Location	Boundary
Social	8 Decent work and economic growth	Talent & Development	16.3.1 Talent & Development	Own operations
		Diversity & Inclusion	16.3.2 Diversity, equity & inclusion	Own operations; Supply chain
		Human rights	16.3.3 Human rights	Own operations; Supply chain
	3 Good health and well-being; 8 Decent work and economic growth	Safety at work	16.3.4 Safety at work	Own operations; Supply chain
	3 Good health and well-being; 11 Sustainable cities and communities	Social impact of light	16.3.5 Social impact of light	Use phase
Environment	7 Affordable and clean energy; 13 Climate action	Climate action	16.4.1 Climate action	Own operations; Supply chain; Use phase
	13 Climate action	Biodiversity	16.4.6 Biodiversity	Own operations; Use phase
	12 Responsible consumption and production	Circular economy	16.4.2 Circular economy	Own operations; Supply chain; Use phase
		Responsible packaging	16.4.3 Responsible packaging	Use phase
		Water usage	16.4.5 Water usage	Own operations
		Hazardous substances	16.4.4 Hazardous substances	Own operations; Use phase
Economic & Governance	3 Good health and well-being; 7 Affordable and clean energy; 8 Decent work and economic growth; 11 Sustainable cities and communities; 12 Responsible consumption and production; 13 Climate action	Innovation	2 CEO message 16.2 Sustainable innovation	Own operations; Supply chain; Use phase
	8 Decent work and economic growth	Cybersecurity	16.3.6 Cybersecurity	Own operations; Use phase
		Business Ethics	16.3.2 Human rights 16.3.5 Business ethics 11.4 Capital allocation 11.6 Share performance	Own operations; Use phase
		Digitalization	2 CEO message 12.5 Key risks	Own operations
		Operational excellence	4 Corporate Performance 12.5 Key risks	Own operations
		Geopolitical instability	12.5 Key risks	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

In 2022, the Sustainability and the Environment, Health & Safety (EHS) functions headed respectively by Maurice Loosschilder and Johan de Fraye consisted of global, regional and local sustainability professionals and fell under the responsibility of the Chief Strategy & Sustainability Officer, Alice Steenland. 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 several times a year. 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 at corporate, division and market levels.

16.1.3 Program targets

Our sustainability commitments are grouped under our sustainability program Brighter Lives, Better World 2025, launched in September 2020. Targets for this program are set for a five-year period, until the end of 2025, and the baseline year for our doubling commitments is 2019.

Changes in targets, policies, definitions or scope are specified annually. 2022 is the second reporting year.

Additionally, to ensure our efforts are in line with the targets of the Paris Agreement, we have set Science-Based Targets for our GHG emissions.

Program 2025 targets

	Doubling objectives	Continue and strengthen
Better World	Double the pace we achieve the 1.5°C scenario of the Paris Agreement	Carbon neutral operations and 100% renewable electricity
		Increase Climate action revenues to 72%
	Double our Circular revenues to 32%	Zero waste to landfill and sustainable packaging
Brighter Lives	Double our Brighter lives revenues to 32%	10 million lives lit through our Signify Foundation
	Double our % of women in leadership to 34%	Safe & healthy workplace with a TRC rate less than 0.30
		Supplier sustainability performance of 95%

Approved Science-Based Targets - 1.5 degrees scenario

	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

Signify has reported in accordance with the GRI Standards for the period January 1, 2022 to December 31, 2022. 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 2022 materiality assessment, a GRI Content Index, our Task Force on Climate-related Financial Disclosures (TCFD) reporting and the EU Directive on non-financial information. In 2022, 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.

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. Divestitures completed before December 31 of the book-year are excluded from environmental and social reporting. For our Brighter Lives, Better World 2025 doubling commitments, we use best estimates for 2019 as a base, including for Cooper Lighting and Klite. These acquisitions are included in our 2022 data but excluded from the reported 2020 comparative figures.

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 and regularly updated benchmark.

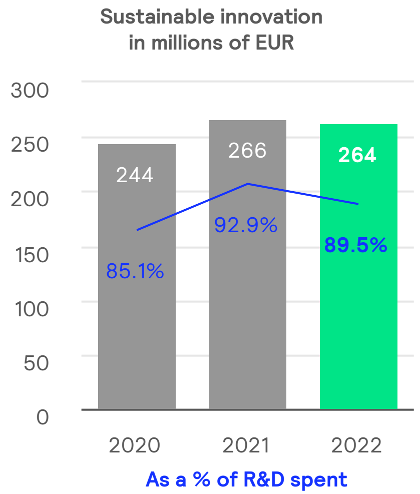
We have five Better World SFAs:

- **Energy & solar** – increasing energy efficiency of products, systems and services, and solar systems and solutions.
- **Circularity** – optimally preserving value and avoiding waste via serviceable luminaires, circular components, intelligent asset management, and circular services.
- **Packaging** – reducing packaging weight and volume, increasing recycled material in the packaging of professional products, eliminating the use of plastics in the packaging of consumer products, and optimizing transportation efficiency.
- **Substances** – eliminating harmful substances.
- **Weight & materials** – reducing product weight, selecting recycled and/or renewable materials, and increasing commonalities.

And three Brighter Lives SFAs:

- **Safety & security** – providing light that improves the safety of people in traffic, cities and houses and increases protection against cybercrime.
- **Health & well-being** – designing light to support health, well-being, and performance of humans, animals and wildlife through unlocking the visual, biological, and emotional benefits of light.
- **Food availability** – providing light that enables the production of more and better-quality food, while optimizing the use of land, water and energy and avoiding the use of pesticides.

Our sustainable innovations continue to transform the lighting industry. In 2022, we invested EUR 264 million in sustainable innovation which represents 89.5% of Signify R&D expenses (92.9% in 2021). We believe that sustainable innovation will help create an increasingly future-proof and purposeful portfolio of products, systems and services.



16.3 Brighter Lives

As part of our company strategy and our Brighter Lives, Better World 2025 sustainability program, we aim to double our impact on society, creating brighter lives for all by the end of 2025. We will do this by doubling our Brighter lives revenues, which benefit society by increasing Food availability, Safety & security and Health & well-being. Additionally, we commit to double the percentage of women in leadership by the end of 2025. We will also strengthen our commitments to employee safety, sustainable supply chain and lives lit through the work of the Signify Foundation.

Kiran Brar,
Chief HR Officer, Signify

"Our objective is to create a great place to work, where people belong, have an impact, and take pride in the company we build together. To achieve this, our 2022 people strategic initiatives focused on creating a more diverse workforce, an inclusive and equitable work environment, and on strengthening our performance culture.

In 2022, we published our first dedicated DE&I report. To further foster an inclusive workplace, we launched the Powering Inclusion series, which brought together speakers from Harvard Business Publishing and Signify to engage on DE&I topics. I am extremely proud of how these practices have been embraced within Signify. With these efforts, we build the skills and capabilities to create an even more inclusive culture across our organization. In order to strengthen our performance mindset, we transitioned from a semi-annual and rating-driven performance process to an ongoing performance conversation with quarterly, employee-driven goals and feedforward mechanism. A revamped recognition program acknowledges and appreciates those delivering outstanding contributions with development opportunities and rewards. Finally, we laid the groundwork to enable a greater sense of ownership by making our employee share purchase program available to more employees in 2023.

Our team was enriched this year when we welcomed new employees from Fluence and Pierlite, and we continue to integrate our new colleagues and build on our people resources. I am confident that with the talented people we have and with a strong performance culture, we will meet challenges in the year ahead with success."

16.3.1 Talent and Development

Employee turnover breakdown in 2022 in %

	Staff (majority in factory)	Professional	Mid-Level Professional	Senior-Level Professional	Leadership	Grand Total
Total adjusted [1]	**6%**	**8%**	**2%**	**1%**	**-%**	**17%**
Total	39%	7%	2%	-%	-%	48%
of which voluntary	25%	4%	1%	-%	-%	30%
of which involuntary	14%	3%	1%	-%	-%	18%

[1] Excluding manufacturing population from Mexico

Employment

The total size of the Signify workforce at the end of 2022 was 34,619 FTEs, compared to 36,824 at year-end 2021. The data provided in subsections 16.3.1 and 16.3.2 excludes contingent workers and employees that have not been fully integrated in our human resources system which represents 29% of our FTEs.

Employees in FTEs

	2020	2021	2022
Signify total	37,926	36,824	34,619

Approximately 29% of our employees were employed by one of our three divisions, focusing on research & product development. 20% were employed in one of our commercial organizations, focusing on sales & marketing. 42% of our employees were in operations, focusing on manufacturing, supply chain, quality and procurement. The remaining 9% worked in corporate functions. During 2022, the overall number of employees (in FTEs, mainly contingent workers) decreased in line with the ongoing external workforce changes and digital transformation and we expect the nature of the current workforce will continue to evolve.

In 2022, Signify's adjusted employee turnover was 17% (2021: 19%), a reduction of 2% compared to 2021. On a reported basis, the total turnover was 48% (2021: 54%) including the specifics of the Mexican labor law, which prohibits contingent labor and therefore causes a significant impact on a consolidated basis. Signify applies high standards in its factories around the world to ensure its competitiveness in highly dynamic labor markets, while continuously improving employee satisfaction and reducing turnover.

Talent Management

With close to 35,000 employees all over the world, our people 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, and where they gain new experiences and develop themselves.

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. Retaining our talent remained a key priority in the course of 2022 and we have been focusing on fostering internal mobility by supporting the match of our talents with internal opportunities.

In 2022, next to our acquisitions, we welcomed 11,063 external talents to help bring our business vision to life, most of whom were employed in manufacturing functions. In line with our people philosophy to promote talent from within the organization, close to 80% of our senior management and leadership roles were filled internally.

A robust global employer brand

In 2022, we continued to build on our Employer Value Proposition (EVP): while our pillars remained the same, as an innovative, sustainable industry leader with an essential focus on continuous learning as well as DE&I, we updated our EVP toolkit with well-being practices and flexible working.

In 2022, we received recognition for being an employer of choice in various countries, for example: Certification as Top Employer in the Netherlands, China, Brazil (Top Employer® Institute), Great Place to work (The Great Place to Work® Institute) in Turkey and we made it again to Mogul's list of 2022 Top 100 Companies for Diverse Representation.

We directed our recruitment marketing campaigns at the most critical segments, to drive our transformation and growth and build talent pipelines. In 2022, we focused on reaching diverse candidates in technology, marketing, finance and sales with relevant messaging customized per region reflecting our EVP.

As part of our global talent acquisition strategy, we continue to attract talent from proven high-quality sources:

- Internal - Over the last few years we have filled approximately 40% of our vacancies internally.
- Employee referral – 18% of total external hires came from employee referrals.
- Signify careers website - Via our content strategy on social media "Humanizing our employer brand", we saw high engagement rates on social media driven by our employees sharing content and our stories on why Signify is a great place to work, in alignment with our values and EVP.

Our employer brand awareness survey showed an increase in active candidates and we improved our rating on Glassdoor, a well-known website where current and former employees anonymously review companies.

Culture

Our company culture is comprised of four foundational elements: purpose, values, sustainability and DE&I. Our company purpose and values provide employees with direction about why we exist, what we value, and how we work. Throughout 2022, we have been adapting our approach to performance in our desire to have more ongoing performance and development conversations and shift towards a performance mindset.

In late 2021, together with our leaders, we embarked on a journey to unlock our individual and collective performance, and in 2022, we engaged our global team members. We reinforced our culture with our Unlock Performance practices, where both employees and people managers take an active role together to drive individual and company performance. It starts with a steadfast commitment to regular, open, forward-thinking performance conversations between employees and managers. During these conversations, employees can share their progress against goals and their learning and development priorities. Managers demonstrate support through active listening and coaching to enable employees to break through performance obstacles and grow. We also promote the practice of feedforward, which is the practice of soliciting input from peers, direct reports or managers that help identify ways an employee can perform even stronger in future situations. In 2022, we introduced these practices to our teams with positive responses; through our quarterly survey 86% of our employees reported to have constructive conversations with their manager about performance and development.

As we look to 2023 and beyond, we will continue to enhance these practices, embed the mindset into our culture and coach our managers and employees to further unlock performance at Signify.

Employee engagement & well-being

Employee engagement and well-being are 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 committed to our company. They help us to meet our business goals and sustainability commitments, whilst contributing to a dynamic, high-performance workplace.

In 2022, we continued our grassroots initiatives across the globe to create awareness about employee engagement & well-being:

- Coffee Corners and global webcasts, to reinforce the connection between our people and our leaders.
- Well-being Webinar Program (online webinars) and activity clubs.
- Health checks in Netherlands and Greater China, for employees to get personal feedback on their health and specific suggestions on follow up.
- Employee Assistance Program in India, with monthly webinars offering free teleconsultation support to all employees and their family for any kind of wellness queries and support.
- Broadening time-off policies in the US to focus on wellness, making specific mention of mental and emotional health and evaluated medical leave of absence procedures to ensure they are inclusive and cover mental health issues appropriately.
- More than 3800 food packages delivered to the homes of our employees in Shanghai during the two-month lockdown caused by the COVID-19 epidemic.

Because sustainability is central to our company strategy, we have engaged our employees on the topic of sustainability since 2019. We do this with quarterly employee engagement themes and challenges that help employees reflect on and connect personal values with the business practices of Signify.

Our Signify Team Survey poses questions in line with our company purpose and values, and it has proven to be a positive driver of employee engagement to increase team effectiveness. As a result, we have continued to run the Team survey every quarter to monitor employee engagement and take corrective actions when needed. Through the Signify Team Survey, in 2022 92% of our employees said that we truly put our Customer First (2021: 91%); 89% of our employees acknowledged that we are Greater Together (2021: 87%); 86% of our employees felt that we are a Game Changer (2021: 85%) and 89% of our employees agreed that we have Passion for Results (2021: 87%). We noted that we need to continue improving in the areas of recognition. Initiatives to address our improvement points are driven at a team level via our Team dialogues, and 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 2022, the Team survey had an average employee response rate of 83% (2021: 84%). At the end of 2022, we recorded an average annual NPS score of 36 across the Signify population (2021: 30). Despite the challenges faced in 2022, our employee engagement score increased to the highest level since we began running the survey and remains in the top 25% of companies making up the ETS eNPS benchmark.

Learning & development

Learning continues to be a competitive advantage at Signify and plays an important role in attracting and retaining talent. In 2022, people connected virtually on our knowledge-exchange platforms to consume or to share their knowledge with colleagues. We updated our methodology to calculate the rate of active learners including both voluntary and mandatory trainings. At the end of 2022, the learning experience platform Learning@Signify reached an active learner rate of 97%. The average number of hours spent on training and development per FTE was 24 hours during 2022 (2021:34). Multiple Subject Matter Experts created learning pathways around critical areas to share their knowledge with others bringing our vision “everyone is a student; everyone is a teacher” to life. A dedicated program was designed to focus on critical capabilities in the manufacturing environment.

Every quarter, Signify employees were stimulated to learn new skills. In the first quarter of 2022, "Simplify" was launched – a learning program to support the organization to strengthen our performance mindset to speed up, execute with discipline, and ensure we delight customers every single day. Meetings, email, and presentations all help us communicate, but they can also slow us down. To break the habits that slow us down, for a strong performance culture and a great place to work, we engaged with our employees in a dialogue of sharing best practices on how to work smarter in a faster world.

Upskill for greater customer impact

We continue to develop commercial skills in the organization through our "Impact program". It introduces a consultative and innovative approach to selling, with a greater emphasis on relationship building and trust. In total, 14 global training cohorts got involved in this 24-week training program in 2022.

Upskill for digitalization

How do we lead the digital transition and transform our business models for the future? In 2022, we continued to invest in digital reskilling 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.

Leadership development

We continued to ensure that our leadership development experiences are aligned with our manager framework of lead, develop and inspire and with our talent philosophy. In 2021, we introduced the iEDGE program to increase the effectiveness of first-time people managers by covering the essentials of people management. In 2022, the program included 90 participants. This ensured that our people leaders continued to get support in their roles for Signify to build a pipeline of future-ready leaders who can further drive excellence and sustainable growth.

In 2022, we further expanded our Edge portfolio by introducing a new EdgeNext program to accelerate the leadership development of our enterprise leaders, preparing them for next level challenges and driving our strategy. The program included 22 participants. In 2023, we will continue to improve the leadership offerings ensuring our leaders are equipped to lead, develop, and inspire our people.

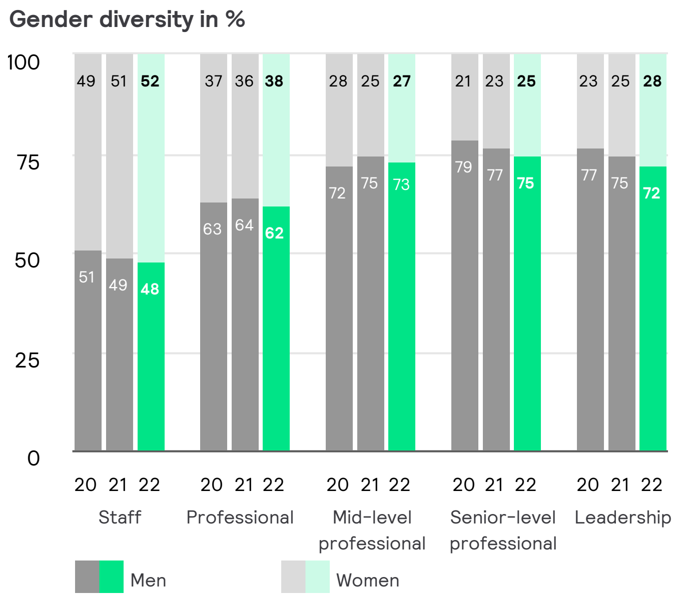
16.3.2 Diversity, equity & inclusion

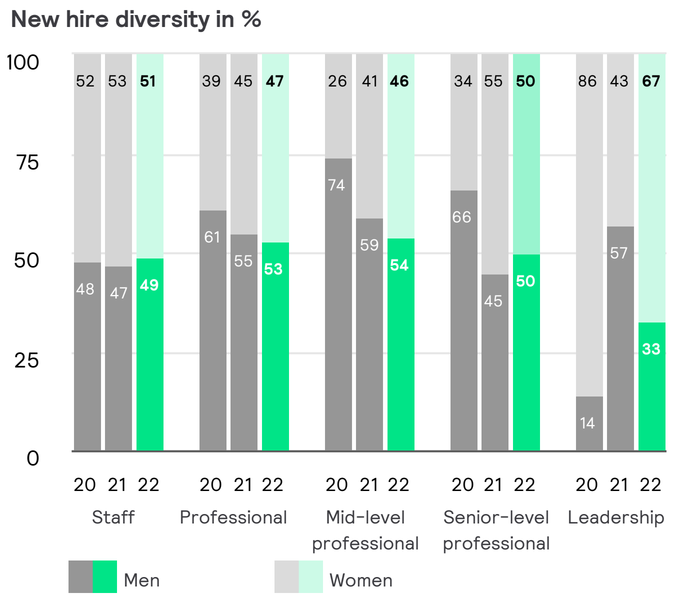
At Signify, we believe that a diverse workforce and an inclusive work environment are essential to a thriving innovative business and long-term value creation. We are an equal opportunity employer committed to DE&I in the workplace. This means we celebrate and foster an environment in which all ideas, 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 while helping us to attract and retain people who want to be part of our purpose to unlock the extraordinary potential of light for brighter lives and a better world. Our DE&I roadmap reinforces our Greater Together value, enabling us to make better decisions, boost innovation, create growth, and strengthen our culture.

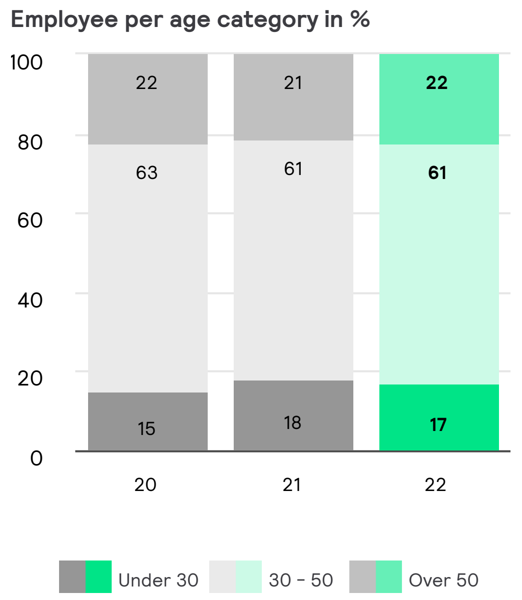
In 2021, we signed the United Nations (UN) Women Empowerment Principles, which underpins our commitment to double the percentage of women in leadership in our business to 34% by the end of 2025, and is another step towards ensuring equal opportunities, fairness, and impartiality for all. On 25th of July 2022, Signify published its first-ever DE&I report. This report is a snapshot of our progress, highlighting the areas where we still need to act and telling the story of our continued journey towards a more inclusive and equitable workplace. In this report, we announced that we have achieved gender pay equity within Signify. Our DE&I report is available on our website: https://www.signify.com/global/our-company/investors/sustainability.

In 2022, our DE&I champions' network grew to around 240 members, who continue to drive actions locally and share best practices. Our DE&I Board, created in 2019, further structured and developed our roadmap.

We continued to reinforce our existing “2+1” approach i.e., global focus on two specific diversity dimensions of gender (increasing representation of women) and generation (increasing early career talents) with space for markets, divisions and functions to locally implement additional important and relevant initiatives.







In 2022, we drove positive actions to increase diversity at all levels (inclusive job posting, diverse shortlist, diverse hiring panel). We set up plans to address gaps and accelerate our progress, so that our talent pipeline reflects all aspects of diversity in the markets in which we operate. To strengthen these efforts, we launched in 2022 a "license to hire" training for all people managers to enhance their skills and knowledge during recruitment around DE&I (e.g., fairness of process, fair decision-making, candidate experience, equity, etc.). In partnership with Harvard Business Publishing, we focused on ensuring DE&I is a cornerstone of our culture. We address topics such as unconscious bias, microaggressions and covering, and inclusive leadership.We have embedded the inclusive Leadership Model into the iEDGE leadership program, which targets our new people leaders. Two out of seven modules are dedicated to "Creating a culture of Trust and Inclusion" and "Realizing our diversity ambitions". The course material is available to all employees on Learning@Signify. We conducted sessions on creating a culture of belonging and inclusion and realizing our diversity ambitions in partnership with our provider, Hult International Business School.

In 2022, 41% of Signify employees were women (2021: 40%) and 28% of leadership roles (positions graded H22+ on the Hay grading scale) across the company were held by women (2021: 25%). We are slightly off track to reach our 2025 target of 34% women in leadership positions. Additionally, in 2022, 50% of our new hires were women (2021: 51%). From a generational perspective, 17% of employees were 30 years old or under (2021: 18%). We have the ambition to attract and retain more early-career talents to build a sustainable talent pipeline.

As a company, we are naturally diverse, operating in 74 countries with more than 95 nationalities represented in our workforce. Globally, we recognize that we need a more diverse workforce, especially in management and executive positions. Therefore, over the last two years, we have intensified our efforts on increasing the representation of women and early-career talents in our company. We are committed to improving diversity at all levels, attracting candidates from more diverse pipelines and driving development and internal mobility to increase representation across our company.

To ensure an inclusive business model, Signify collaborates with key strategic suppliers to drive better DE&I performance across its value chain. In 2022, we engaged with key suppliers to exchange best practices via a dedicated online program and we included the topic of DE&I in our Tritium program (see more in sub-section 16.3.3) to reward suppliers already adopting practices promoting DE&I. Globally, we recognize the need for a more diverse representation in the areas of gender and age, 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 the 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. We believe in the importance of being intentional and accountable to advance DE&I and create brighter lives and a better world.

Equal remuneration

Signify's commitment to equity & 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. Furthermore, Signify performs regular reviews that 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. More can be found in our Diversity, Equity & Inclusion Report.

16.3.3 Human rights

Our approach

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.

In 2022, following our process for identification of new salient human right issues, we added "Modern Slavery and Human Trafficking", to ensure we create the processes to prevent its occurrence in our own operations and supply chain. We also established a Human Rights Committee, formed by senior leaders of the company, with the objective to sign-off on the selection of the salient human rights issues and agree on the corrective actions in case of any finding through our different assessment processes. The table below 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 Signify made in addressing these issues.

Human rights risk assessment

Compliance with the Human Rights policy is governed through our Integrity code processes, combined with dedicated steps that help ensure adherence. In 2022, 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 2021, we identified five sites from one of our newly-acquired operations where some practices

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	•	•		16.3.5: Business ethics 16.3.3: Human Rights
2	Safe & healthy workplace	•	•		16.3.4: Safety at work 16.3.3: Human rights
3	Working hours	•	•		16.3.5: Business ethics 16.3.3: Human Rights
4	Equal employment opportunities and respect	•	•		16.3.2: Diversity, equity & inclusion 16.3.3: Human rights 16.3.5: Business ethics
5	Recognition and reward	•	•		16.3.2: Diversity, equity & inclusion 16.3.3: Human rights 16.3.5: Business ethics
6	Modern Slavery & Human Trafficking	•	•	•	16.3.3: Human rights
7	Forced and child labor		•	•	16.3.3: Human rights
8	Employee development	•			16.3.1: Talent & Development 16.3.5: Business ethics

were not aligned with our policy. We have put a plan in place to align these practices with our policy. Corrective actions include measures such as establishing at least one day off per week as a rest day. The implementation of the improvement plan started in the five newly acquired sites and we continue to define further improvement actions. Following a reassessment in 2022, no additional sites had non-compliance findings.

Living wages

Recognition and rewards have 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 work environment, but also an inspiring place to work and grow. Fair remuneration is considered a precondition for our employees to flourish. Signify provides total compensation that is in line with the industry practices in the markets in which we operate. In addition, we are committed to providing our employees with a living wage, ensuring that their everyday needs are met. The guiding principles of our pay policy include providing competitive compensation relative to all labor markets, ensuring equity, and providing a living wage to our employees.

As such, to ensure compliance against our guiding principles, Signify launched its Living Wages program in 2017. Regularly, Signify performs an analysis of salaries and benefits for employees globally with respect to a living wage, covering the necessary living costs. We focus on employees who have a higher risk of not receiving a living wage by analyzing 42 regions in 6 different countries (representing 78% of the overall Signify population). We compare our wages to the WageIndicator Foundation database.

The 2022 results show that company standards exceed the living wage standards in all regions examined, except seven, which together represent 12% of the population analyzed in the six principal countries. We are developing remediation actions to close the gaps identified in these seven regions.

One region identified during the 2021 analysis had 91% of the population not meeting the living wage standard, while in 2022 the same region had 51% of the population not meeting the living wage standard thanks to a 22% increase in national minimum wages. In the second region identified in 2021, the total population of Signify employees increased by 322%, while we saw an increase of 59% in the absolute number of employees below the living wage standard in this region. At the same time, we saw a decrease in the relative share of employees below the living wage standard from 96% to 36%.

Fair compensation in terms of wages, overtime and benefits for our suppliers' employees in risk countries is part of our sustainable supply chain program. We collect relevant data and through our active engagement, 84% of our risk suppliers met our requirements on wages and benefits. We closely follow the developments in the field of Living Wages and in 2022 we joined the dedicated RBA Living Wages task force.

Social responsibility in our supply chain

We have a direct business relationship with more than 3,000 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. Signify has developed programs over the years to prevent human rights violations in its supply chain. These programs cover the assessment and development of supplier sustainability performance (audits and training) and responsible minerals sourcing. As part of our Brighter Lives, Better World 2025 sustainability program, we commit to have a supplier sustainability performance rate annual target of 95% until the end of 2025.

Our Tritium program helps us develop a strong supply chain with best-in-class suppliers and is based on selection and rewards criteria against our strategic priorities. The Tritium rating strongly drives continuous improvement of our supplier sustainability performance. Sustainability maturity and initiatives on Human rights, Working conditions, Climate action and DE&I are rewarded in the Tritium system with reward points. Non-compliance is penalized and needs to be corrected or will result in consequences for the business relation. Through our efforts, we foster decent work and economic growth by improving the safety and well-being of suppliers and directly contribute to 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 and 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 laws can be found on our website.

Our audit program consists of full audits performed by an independent audit firm for selected suppliers in risk countries with a spend threshold of EUR 1 million per year. The audit program also covers new suppliers introduced by our recent acquisitions (with a same spend threshold for Cooper Lighting and a spend threshold of EUR 5 million per year for Klite). To improve sustainable practices in our supply chain, we want to increase the number of our suppliers that either are low risk or have a mature sustainability practices and good performance. We encourage suppliers to certify to the SA8000, ISO14000 and ISO 45001 standards or to become member of the Responsible Factory Initiative (RFI), a program offered by RBA experts.

For suppliers that score below a defined specific target, we increase the audit frequency from a three-year to a one-year cycle. For suppliers that score well but need corrective actions, we keep the three-year audit cycle. Suppliers that pass the audit with no need for corrective action will be exempted from the audit program until a complaint or an issue is raised by internal stakeholders or from external sources. At the end of 2022, 189 suppliers were part of our audit program (69% of Signiyf's total spend), of which 22 were not audited to the travel restrictions and lockdowns. Among them, 157 suppliers (94%) are compliant by passing the audit or by resolving identified non-conformities. Ten suppliers (6%) were not able to correct their non-conformance within six months and are considered non-compliant. We applied our consequence management process. In total, at the end of 2022, our compliance rate was 94%, slightly below our annual target of 95%. In 2022, despite the restrictions caused by COVID, we audited 79 suppliers on-site and reached close to 33,000 workers employed at the sites audited. Most of Signify suppliers are based in China (54%), followed by India (7%) and Mexico (7%). In total, 31% of our supply base is located in low-risk countries.

The next table shows the supplier sustainability performance and indicates the compliance rate in the audits before suppliers have taken corrective actions. Overall, there is no compliance rates below 60% in 2022, which is an improvement compared to 2021. This is mainly due to a supply chain location shift, the impacts of COVID and increased regulations in China.

Summary of 2022 audit findings before suppliers have taken corrective actions, supplier compliance rate per category of the Supplier Sustainability Declaration.

Labor	Health & Safety	Environment	Ethics	General
Freely chosen employment 80-100%	Occupational safety 60-80%	Environmental permits and reporting 80-100%	Business integrity 80-100%	RBA code 80-100%
Child labor prohibition/ Young worker management 80-100%	Emergency preparedness 60-80%	Pollution prevention and resource reduction 80-100%	No improper advantage 80-100%	
Working hours 60-80%	Occupational injury and illness 80-100%	Hazardous substances 60-80%	Disclosure of information 80-100%	
Wages and benefits 80-100%	Industrial hygiene 80-100%	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 60-80%	Water management 80-100%	Responsible sourcing of minerals 80-100%	
	Health & Safety information communication 80-100%	Energy consumption and greenhouse gas emission 60-80%	Privacy 80-100%	
			Non-retaliation 80-100%	

As part of our onboarding process, we also audited 46 new suppliers to assess their maturity.

The assurance of freely chosen employment in our supply chain is a key element of our sustainability objectives. Forced labour is considered a zero-tolerance issue and Signify's policy requires immediate remediation if observed.

We have been closely following the implementation of the US's Uyghur Forced Labor Prevention Act (UFLPA) and, in response, we are now planning for additional compliance and due diligence mechanisms. This includes inquiry of Tier 1 suppliers and putting in place upstream traceability of raw materials at risk.

Supplier training and developments

Since 2017, we have put in place training for our suppliers to share our learnings and support more sustainable practices among our suppliers. In 2022, we organized two webinars on RBA Code of Conduct focusing on the top 20 most frequent non-conformities found in our audit program. 76 suppliers joined, with a total of 164 attendees.

In 2022, we continued our Supplier Carbon Disclosure Program with 54 suppliers attending the training sessions. With our Printed Circuit Boards suppliers we deep dived on energy consumption and noise level on the shop floor.

We initiated a new DE&I program in our supply chain and organized four best practices sharing sessions with eight key suppliers. Through our audit program, we have identified that more than 25% of our suppliers have already set DE&I targets and/or signed a DE&I pledge.

Responsible mineral sourcing

Our commitment to sustainable development extends to issues further down 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.

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.

We are also an active member of the Responsible Mineral Initiative (RMI) which runs the audit program to verify the smelters' conflict-free status and to identify sources of 3TG and cobalt in our supply chain. We use the tools and programs developed by the RMI, especially the Conflict Minerals Reporting Template (CMRT), the Extended Minerals Reporting Template (EMRT) and the Responsible Minerals Assurance Process (RMAP). Each year, we update our list of smelters using the CMRT and/or the EMRT information provided by our Tier 1 suppliers.

The smelters identified through this process are included in the Signify smelter list published in our Signify Conflict Minerals Declaration (see link below).

In prior year, we identified 324 3TG smelters, of which 83% were conformant or in the compliance process with RMI audits, 15% were not yet included in the process and 2% were non-conformant (eight cases). We also identified seven smelters for cobalt, of which one was non-conformant. This year, we were able to remove two 3TG and one Cobalt non-conformant smelters via outreach to our Tier 1 suppliers and follow-up by RMI.

In 2022, we unfortunately saw the number of non-conformant smelters increasing due to recent global developments such as the Russia-Ukraine war and the ban on Russian minerals. By the end of 2022, we identified 20 non-conformant smelters in our supply chain and an action plan for 2023 is being prepared. More can be found on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/responsible-minerals.

Cobalt is present in our battery supply chain only for emergency lighting and remote controls. To enhance transparency in the cobalt supply chain, in 2018 we co-founded the Fair Cobalt Alliance (FCA) with Fairphone, Huayou and Impact Facility.

This multi-stakeholder action platform offers actors across the cobalt supply chain a pre-competitive environment for collaboration to help strengthen and professionalize DRC's artisanal cobalt mining sector and contribute to local economic development at large. In 2022, we worked on a Signify Solar project at a Kolwezi community (DRC) where we completed the solar electrification of seven schools, reaching more than 6000 pupils. For more on the FCA program: https://www.faircobaltalliance.org/

16.3.4 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 SDG 8: Decent work and economic growth,

The total recordable cases (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, manufacturing sites and distribution centers.

As part of our Brighter Lives, Better World 2025 sustainability program, we continue to commit to a safe and healthy workplace with a TRC target of 0.30 by the end of 2025, and the ambition for each single site to reach it.

In 2022, we focused on increasing injury prevention capabilities at a site level by launching dedicated and mandatory trainings for EHS Managers on site. We started the digitalization of EHS reporting that will allow deeper and more effective analysis of workplace hazards and related risks. In our operations, we continued the STAR (Stop-Think-Act- Reflect) campaign to increase hazard awareness of employees and to promote accountability to stop and speak-up when facing a non-standard or hazardous situation at work. Safety Week 2022 was dedicated to the concept of "Safety as state of mind". As part of this campaign, we re-launched the Signify 10 Golden Safety Rules training and the "Heroes of Safety" global competition.

In 2022, we continued to improve equipment safety, warehousing safety, behavioral safety and drive cross-site prevention via the Safety Alerts process. Our injury prevention framework, launched in 2015 and adopted by our industrial sites, has been further integrated into the operational Lean framework, the Manufacturing Standards platform and Signify Quality System. A dedicated EHS integration programs was executed for our joint-venture Klite.

Going forward, to realize our zero injury workplace ambition, we will reinforce workplace and behavioral hazards identification and elimination. We are addressing this by increasing employee capabilities for injury prevention, daily leader standard work for safety and a digitalized hazards reporting and monitoring system.

We recorded 47 TRC cases in 2022 (2021: 58) and had no fatality incident. The TRC rate decreased to 0.16 per 100 FTEs, compared to 0.17 in 2021. This is a 6% improvement compared to 2021.

In 2022, 64% of our industrial sites had no recordable injuries. There were 19 industrial sites that have had no recordable injuries over the last 3 years, while 32 sites had achieved more than 500 injury-free days.

Recordable cases

	2020	2021	2022
Total recordable case rate	0.22	0.17	0.16
Severe injuries	21	18	7
Severity rate	0.06	0.05	0.02
Lost workday cases rate	0.17	0.12	0.09
Fatalities	0	0	0

Management system

Manufacturing sites continued to be certified locally and via multi-site certificates and at the end of 2022, 61% of our reporting manufacturing sites were ISO 45001 certified. The remaining manufacturing sites have procedures in place to foster compliance with local regulations and Signify policies.

16.3.5 Business ethics

Signify's Integrity code

Our 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 chapter 12, Risk factors and risk management, section 12.1, Establish a strong risk management environment.

In 2022, we focused on increasing employee awareness during the onboarding process. To ensure that new employees gain the necessary knowledge of legal compliance to perform their jobs, targeted communication on our online courses is sent to them in the first two weeks of their onboarding. This is to actively encourage all new joiners to go through our courses and to promote ethical behavior at work. By the end of 2022 the completion rate of our e-learnings was 95.5% of the targeted employees. Our current program covers antitrust, anti-corruption and anti-money laundering, privacy and data protection, export controls and sanctions, security, speaking up and business integrity.

In 2022, 244 Integrity code concerns were captured via the Signify Ethics line and through our network of compliance officers, a 25% increase compared to 2021. The number of concerns raised is substantially higher than in the previous year. Details per category are shown in the table.

Most commonly reported concerns

Treatment of employees

The category Treatment of employees represents 53% of the total cases reported (46% in 2021). Within this category, the largest subcategory is Equal, fair and respectful treatment. This made up to 79% of the concerns related to Treatment of employees in 2022 (66% in 2021). This category, for example, relates to concerns about verbal abuse, (sexual) harassment, favoritism and matters of discrimination in the workplace.

Business integrity
The second most reported type of concern relates to Business integrity. The number of complaints reported in this segment represents 31% of the total cases reported in 2022 (29% in 2021).

Security
In 2022, the number of reported cases relating to Security, including IT was stable. This category represents 12% of the total cases reported in 2022 (15% in 2021) and relates, for instance, to concerns about unauthorized use of the company's assets, theft, cyber security or other IT-related concerns.

Substantiated concerns

At the start 2022, 29 cases were open. During 2022, a total number of 244 cases were reported. As per December 2022, 50 cases were open. That means that during 2022, we closed 223 cases. Of these 223 cases, 91 were found to be substantiated, which represents 41% of the closed cases.

Substantiated cases are followed up with corrective actions. Such corrective actions can include additional measures, such as training, strengthening of internal controls, creation of additional policies or other measures that aim to promote or enhance a culture of business compliance.

Breakdown of alleged violations Integrity code

	2020	2021	2022
Health & Safety	2	3	3
Treatment of employees	86	90	130
• Equal, fair and respectful treatment	60	59	103
• Employee development	4	3	–
• Employee privacy	–	–	–
• Employee relations	2	5	3
• Remuneration	5	11	2
• Right to organize/Collective bargaining	–	–	–
• Working hours	2	2	–
• HR other	13	10	22
Legal	7	11	3
Business integrity	59	56	75
Security, including IT	24	30	30
Other	–	5	3
Total	**178**	**195**	**244**

Corrective actions can also take the form of disciplinary action. In 2022, Signify applied disciplinary actions ranging from training and coaching to verbal and written warnings and to termination of employment, depending on the severity of the matter.

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.

Responsible Tax is an important topic for Signify to report on. 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. We are committed to providing timely, regular, and reliable information on Signify's tax position, including the Group effective tax rate, our total tax contributions, and our main tax exposures (see chapter 14, Consolidated financial statements, note 9, Income taxes).

We embrace the Tax Governance Code, as published by the Confederation of Netherlands Industry and Employers (VNO-NCW) in 2022 and provide more information on our Tax Principles, Tax Strategy, Tax Organization and Tax Contributions in our Tax Report: https://www.signify.com/global/our-company/investors/governance.

Tax governance, control and risk management

The responsibility for Signify's Tax Strategy, Tax Principles and how we manage our tax risks, ultimately rests at our Board of Management with the CFO. At least once a year, the Tax Principles and Tax Strategy as well as the Tax Risks are discussed with Signify's Board of Management. If needed these principles and strategy are updated and subsequently approved by our Board of Management.

Signify's Tax Principles ensure compliance with local and international tax laws and regulations for all our group entities. These principles govern how Signify operates with customers, suppliers, contractors, and employees. We aim to prepare and file all required tax returns on time, providing complete, accurate and timely disclosures to all relevant tax authorities.

Signify has a Tax Control Framework in place, to monitor and test the execution of critical tax processes as well as for risk management. Our Tax Controls are part of our Business Control Framework and our internal controls for financial reporting (ICS). They are monitored and documented by our Tax Organization and the dedicated ICS team. Internal auditors regularly review our tax controls and external auditors review our key tax positions and our tax processes as part of the audit of our Annual Report.

Stakeholder engagement

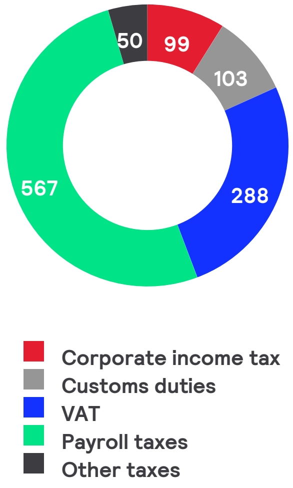
Signify maintains an open dialogue with our stakeholders and we engage constructively in national and international dialogue with governments, business groups and civil society to support the development of effective tax systems, legislation and administration. We regularly participate in meetings of business groups, to learn from our stakeholders and to provide our view on tax developments.

Signify aims to build and maintain a cooperative and healthy working relationship with all relevant (tax) authorities. The transparency in our tax policy is a key factor in building mutual respect and trust with tax authorities.

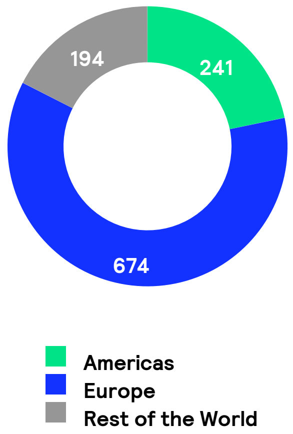
Total tax contribution

Our total tax contributions in the financial year 2022 amounted to EUR 1.1 billion. This amount consists of both taxes borne and taxes collected by Signify. The taxes borne include the income tax paid, customs duties, VAT and the employer part of the payroll taxes. For more information on the definitions used in this chapter, please refer to chapter 19, Definitions and abbreviations.

Total tax contributions by type EUR million



Total tax contributions by region EUR million



2022 Signify corporate income tax paid per main countries

Countries	EUR million
France	20
China	15
The Netherlands	13
India	12
Mexico	2
Poland	9
Belgium	4
Canada	3
The United States	1
Other	20
Total	**99**

The amounts of corporate income tax paid reflect the geographic spread of Signify's activities. The most significant amounts are paid and accrued in China, the Netherlands, and India where Signify has substantial business operations. In France, we paid high income tax due to income resulting from the sale of non-strategic real estate. In the United States, Belgium and France we used losses from prior years, resulting in lower income tax paid.

Product quality

Signify is strongly committed 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. Additionally, our employees follow in-person or e-learning trainings on safety and quality. As an example, our research and development employees need to follow a mandatory training on Design for safety and this year, we launched safety awareness training for our business leaders across the organization.

The implementation of Advanced Quality methods is leading to higher maturity levels of products and services and consequently higher customer satisfaction.

In line with mandatory legislation all over the world, Signify is committed to placing 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 might 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 2022, no product safety issues were found that resulted in a material fine or penalty.

16.3.6 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 focuses on Information, Product and Operational security. Signify follows the three lines of defense model. The first line of defense is performed by IT, Business units and Security Operations. The second by the Corporate Security department and the third by our internal independent audit team. The responsibility of the Corporate Security Office, as a second line of defense, is assurance and control function (i.e., risk, compliance) that oversees security risk, sets the security controls framework and monitors the deployment of the controls within the first-line of defense (i.e., IT, Innovation, Business Units).

We have a Cybersecurity team that provides Threat Intelligence, Guidance and Assurance services, and Manufacturing Cybersecurity services. Our threat intelligence team has a defined process for gathering, analyzing, and distributing actionable intelligence on potential threats to Signify, and proactively alerts stakeholders. Our Guidance team is responsible for providing security guidance through the development of Policies, Standards and Process Guidelines, and establishing an Enterprise Security Architecture to keep our digital identities, data and environment secure. Our Assurance team performs independent assessments and penetration testing activities to validate implementation of standards and assess residual risks and gaps. Our Manufacturing cybersecurity team provides guidance and assurance support to secure our Manufacturing and Operational Technology (OT) assets. Our security operation center is responsible for the 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.

Our cybersecurity requirements also apply to our external partners and suppliers as part of the security schedules and contracts signed to emphasize the adherence of security standards expected from them. Our cybersecurity processes and measures are based on ISO 27001 (Information security) and ISA/IEC 62443 (Product Security) certifications, as well as other related best practices (such as the National Institute of Standards and Technology (NIST), and the Center of Internet Security (CIS)).

Our overall approach to Cybersecurity and prioritization of activities is risk-based, and we recognize identity as the perimeter to maintaining the required security. In addition to the guidance provided as part of the security standards and guidelines, we have set up a formal process that extends the reach of our cybersecurity services directly to business and IT stakeholders, and is available to clarify their questions and doubts about cybersecurity-related matters.

From an awareness standpoint, all our employees are expected to complete a mandatory training on security every year, that includes a quiz to ascertain their understanding of the topics. Webinars are organized on topics of emerging cybersecurity threats and best practices to teach employees to avoid the risks of falling prey to them. Focused trainings are also conducted as required. Phishing simulations are regularly conducted on a monthly basis including for new hires. Dedicated learning pathways are created for those who fail the simulation tests.

In 2022, Security assessments were conducted to assess the risks in cloud environments and on-premise systems. Continual assessments for critical assets were conducted during the course of the year to ensure constant visibility to the risk of identity exposure. Security architecture and approach for Continual assurance and management of SaaS Security Posture, as well as Attack Surface Exposure Monitoring were developed. Security webinars were conducted to employees on topics including "How to protect from Ransomware", "Emerging new tactics of Ransomware", "Phishing’ and ‘Information Protection- 101". The Phishing, Ransomware and Insider Threats continue to be a challenge, as does balancing the need for improved security without impacting end-user experience. We are constantly trying to evolve and improve our cybersecurity guidance, alerting, monitoring and incident response mechanisms to manage these threats without causing disruptions to Signify businesses. In 2022, we conducted a cyber crisis tabletop exercise to understand and address gaps in our preparedness for a cyber crisis. We are actively planning to conduct more cyber drills at manufacturing sites and red teaming exercises to improve cyber incident resilience.

All cybersecurity activities are reported to and monitored by the Security Board, chaired by our Chief Executive Officer, Eric Rondolat. Other members of the Security Board are the Chief Financial Officer, the Chief Security Officer, and the Heads of Internal Audit, Legal and Human Resources. The Board of Management and the Supervisory Board are informed regularly.

16.3.7 Social impact of light

Brighter lives revenues

We are driving change to create brighter futures. With our lighting innovations, we support the health and well-being of people, sustainable food production for a growing global population, and a safer and more secure society. We commit to double our Brighter lives revenues to 32% by the end of 2025, which means our revenues coming from lighting innovations that increase food availability, safety and security, or health and well-being. At the end of 2022, our Brighter lives revenues were 27% (2021: 25-27%). Through our actions, we directly contribute to the achievement of SDG 3: Good health and well-being and SDG 11: Sustainable cities and communities.

Health & well-being

Light is essential for life, and equally important as food, water and air. Light allows us to see and to experience the world around us. It affects us visually, biologically and emotionally, supporting comfort, well-being 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 liveble and up to 12% more productive.

In 2022, we continued to focus on quality of light in our LED portfolio meeting the EyeComfort criteria which include factors that can impact the comfort of your eyes (such as flicker, stroboscopic or glare). We further expanded the EyeComfort in our LED lamps, Hue and WiZ portfolio.

We also focused on Office and Healthcare applications, contributing to employees', patients' and staff's health and well-being. NatureConnect brings the benefits of natural light indoors. Based on the combined 2021 results of end-user surveys at different customer sites, 80% of the office workers confirmed that the lighting feels like daylight. "I really feel like I'm outside" is the most common reaction from customers.

The coronavirus pandemic revealed that health and well-being are top priorities, and lighting can offer reliable disinfection through several UV-C applications. In 2022, our portfolio of new innovative solutions based on our UV-C offering was further extended to help create safe and healthy indoor spaces.

The risk of contracting and spreading viruses and bacteria increases in busy and public areas, such as offices, stores, schools, museums and public transport. In laboratory testing, our UV-C light sources inactivated 99% of the SARS-CoV-2 with an exposure time of six seconds.

Food availability

To meet the needs of a growing population, we need to consume resources more efficiently. Global food demand will rise by 70% by 2050, while 80% of arable land globally is already farmed. Many of the vegetables we consume are not produced locally and are transported over long distances. Approximately one-third of the world's available food is either spoiled or thrown away before it ever reaches a plate. Overall, the world's current food production and distribution systems contribute between 20% and 30% of global greenhouse gas emissions. To address these challenges, significant changes to our food systems are needed to ensure enough safe, healthy, accessible and affordable food for all in the (near) future.

Horticulture LED technologies can provide an answer by realizing extremely efficient farming with high yields, efficient use of space and enabling local production, at least a 90% reduction in water use, and avoiding pollution from pesticides. With the right light spectrum and growth recipe, our lighting innovations give better control over climate and crops, and help to achieve high quality and yield at the right time. Our technology applies also to aquaculture, animal centric lighting and water and air purification.

Safety & security

For the past 10 years, lighting has gone through a significant technological transformation, opening new possibilities in using light. With increasing urbanization, street crime and traffic accidents are a real challenge. Interact-connected LED systems and management software improve city services and can help to reduce street crime and night-time traffic accidents, while reducing energy costs. Our connected LED systems also have applications for outdoor homes, enhancing feeling of safety and security.

Today, more than 50 billion devices are connected to the Internet, most of them wirelessly. This is placing wireless communication under increasing pressure, and the radio spectrum is becoming congested. In addition, there are areas where radio frequency wireless communication is not permitted or the best fit. Trulifi by Signify offers a range of LiFi systems, providing a two-way wireless communication that is reliable, secure, and fast. Next to this, Trulifi is immune to any electromagnetic interference from, for example, industrial processes.

Access to light

In its fifth year of operations, the Signify Foundation remains committed to enabling access to the benefits of sustainable lighting for underserved communities.

In 2022, the Signify Foundation continued to focus on building recovery and resilience for underserved communities by enabling access to light and livelihood development. The Foundation has mainly supported two types of intervention: direct product placement and installation (Lighting lives and Humanitarian lighting projects), and competency build-up for last-mile distribution (Lighting entrepreneurs projects).

Its work contributes to the UN Sustainable Development Goals (SDGs), in particular to SDG 5: Gender equality, SDG 7: Affordable and clean energy, SDG 8: Decent work and economic growth, and SDG 11: Sustainable cities and communities. Projects supported by the combined resources of Signify and the Foundation have lit 8.3 million lives in communities around the globe and supported 12,043 lighting entrepreneurs (baseline 2017).

Humanitarian lighting

The world has seen a record high in displaced populations in 2022, driven by geopolitical conflicts and climate change. The Signify Foundation redoubled its efforts to provide relief for displaced people with its Humanitarian lighting program. Bringing lighting to displaced people increases the safety and security of vulnerable communities, and can contribute to people's overall sense of dignity.

From the beginning of the the Russia-Ukraine war in February 2022, the Signify Foundation activated its humanitarian aid protocol to provide emergency lighting to shelters and households. The first batch of 952 portable lights arrived in Lviv on March 5, followed by larger volumes. In total, more than 35,000 lights were sent to aid agencies: the UN Refugee Agency (UNHCR), European Food Bank, and Global Medic in Ukraine and Poland. Signify has made a financial commitment of EUR 800,000 in funding to support immediate and medium-term needs. Signify employees have also been supportive, from teams in neighboring countries arranging transfers, meals, and accommodation, to the many employees around the globe offering donations directly to the Foundation's relief efforts.

credits: Global Medic

Lighting entrepreneurs

Through its Lighting entrepreneurs programs, the Signify Foundation supports local capacity building, with a focus on business and technical skills, to develop sustainable communities and livelihoods. This support focuses on empowering people who currently lack access to formal employment, particularly youth and women, and who are motivated to start their own clean energy businesses.

Since 2021, the Signify Foundation has supported the development of women entrepreneurs in Senegal with ElleSolaire. Grant support enables this unique women-led, community participatory distribution model to scale. The project supports women entrepreneurs to work together towards self-reliance, professional inclusion, and the sustainable alleviation of energy poverty.

credits: ElleSolaire

Lighting lives

The Lighting lives program aims to create long-lasting impact on people's lives. Lighting interventions designed in collaboration with local groups and aid agencies have made a positive impact on communities, providing better access to health care, essential services, sports, and productivity. In 2022, the Foundation partnered with a local NGO Beyond the Goal Post and Signify's Ghana office to provide lighting to off-grid villages in Ghana's Southeast and Northern regions. Solar streetlights and poles were transported by boat to these remote villages. The new lights shine through the evenings to safeguard people, especially children, women, and elderly people.

Through the Foundation and Signify's continued efforts, we are on track in our efforts to reach our target of lighting 10 million lives by the end of 2025. To learn more about the Foundation, please read the Signify Foundation's Annual Report.

16.4 Better World

Maurice Loosschilder
Head of Sustainability, Signify

“Our world is faced with a rapidly warming climate and an energy crisis that is now truly global. There has never been a more urgent need for efficient solutions that reduce the amount of energy we consume. If we want to live in a carbon-neutral world in 2050, at least half of the change we need to make will come from reducing our energy consumption. Lighting makes up 12% of global electricity usage. It is encouraging to me that within this domain, the transition is fast, accessible, and entirely within our reach.

Signify’s Brighter Lives, Better World 2025 sustainability program aims to double our positive impact on the environment, bringing us all a step closer to this brighter future. In the past decade, we have reduced our operational carbon footprint by more than 70%. We remain carbon neutral in our global operations and use 100% renewable electricity. In the past year, we have ramped up our efforts not just in our operations, but across our entire value chain, to minimize the impact of climate change and accelerate the transition to a circular economy. In line with our commitment to SDG 13: Climate action and SDG 7: Affordable and clean energy, we aim to double the pace of the Paris Agreement’s 1.5°C scenario to reduce greenhouse gas emissions over our full value chain by the end of 2025. And on SDG12: Responsible consumption and production, our goal is to double our revenues from circular products, systems, and services by the end of 2025. Both commitments were on track at the end of 2022.

As the global sustainability leader in lighting, our impact as an environmentally responsible organization is at the very heart of our company strategy. Changing how we run our company is a key driver of our growth. It also represents a commitment to working with our clients and our partners, whether they are corporations, governments, educational institutions, or consumers, to make the lighting industry a force for positive environmental change.”

16.4.1 Climate action

Climate leadership

At Signify, 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, with deep decarbonization across our value chain. In 2019, Signify was one of the first 30 companies committing to verified Science-Based Targets in line with the Paris Agreement's 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 2022, we achieved:

- 57% reduction of absolute scopes 1 and 2 GHG emissions (baseline 2015).
- On track towards our reduction target of absolute scope 3 GHG emissions from use of sold products (baseline 2015).

In 2022, Signify was again recognized in CDP's Climate A list for our leadership in environmental performance and we were included in the Dow Jones Sustainability World Index for the sixth consecutive year. We continued to partner with the Climate Group’s EV100 Initiative to operate a lease fleet of hybrid and fully electric vehicles (EVs) by 2030. We remain engaged in the AndersReizen 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 since 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. We renewed our partnership with Maersk, one of our key partners in ocean freight, and supported them in launching new vessels that operate on zero-carbon fuels. These partnerships will help us to scale zero carbon solutions in our supply chain and logistics operations. 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.

In 2022, we continued our efforts to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations to further assess our climate-related risks and opportunities via our internal cross-department task force. As a result, we refined our climate risk mitigation and adaptation strategy. For more information, please refer to our TCFD reporting in the Sustainability Supplements to the Annual Report.

All our environmental policies and our management framework are based on the international ISO 14001 standard. In 2022, 70% of our manufacturing sites were ISO 14001 certified.

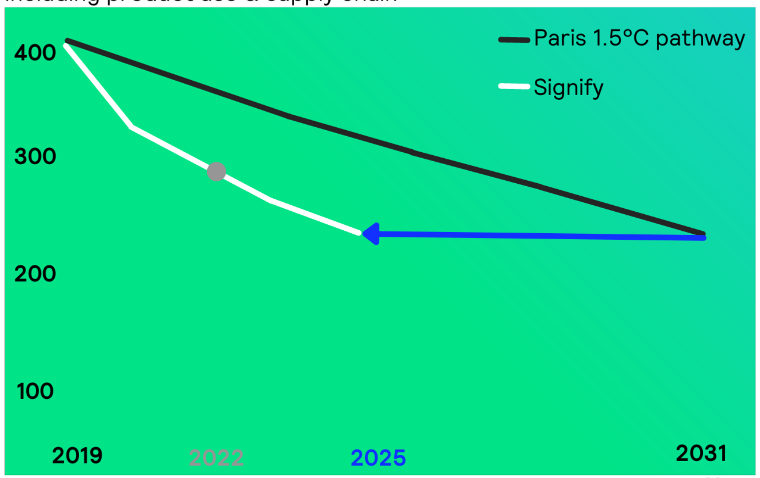
Double the pace of the Paris Agreement

In our Brighter Lives, Better World 2025 sustainability program, we go beyond carbon neutrality and commit to doubling the pace of the Paris Agreement's 1.5°C scenario to decarbonize our entire value chain. This means we aim to achieve the emission reduction goals laid out in the Paris Agreement's 1.5°C pathway for 2031 by 2025, six years early.

By the end of 2025, we will reduce our scope 1, 2, and 3 emissions by 40% compared to our 2019 baseline year. As shown in the graph, 97% of our value-chain emissions lies in the product use phase. By offering energy-efficient products, we help our customers reduce millions of tonnes of CO_2e.

Doubling the pace of the Paris Agreement

Value chain CO_2 (million tonnes)
including product use & supply chain

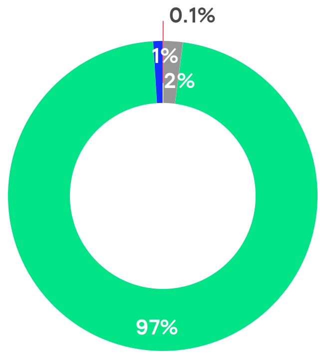


At the end of 2022, the total avoided emissions achieved through our LED technology sales (compared to Conventional technology) was 21 million tonnes CO_2e.

We are on track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5° scenario. This reduction is mainly due to the increased share of sales of energy-efficient and connected LED lighting which drives emissions reduction in the use phase.

Reporting emissions across the value chain is still a niche practice where Signify is making significant progress. We continue working on improving the availability of the data used and have the ambition to include additional scope 3 data in next year's report. For more details on our approach, please refer to our Sustainability Supplements to the Annual Report.

Signify footprint over its value chain



- Operations (Scope 1, 2, Logistics, Business travel)
- Scope 3 suppliers
- Scope 3 use of sold products
- Scope 3 end-of-life

Carbon neutral in our operations

To combat climate change, we believe we have a responsibility to take climate action in the best way we can. For Signify, this means decarbonizing our own operations, and in addition, enabling our entire value chain and the society to accelerate climate action. Signify has reduced more than 70% of its absolute operational carbon footprint since 2010, and continues to do so, via hundreds of initiatives implemented in factories, offices, logistics, and business travel.

Since September 2020, we run carbon neutral operations around the globe, which means GHG emissions from our manufacturing facilities (scope 1 and 2), non-industrial locations (scope 1 and 2), upstream and downstream logistics activities (scope 3), and business travel (scope 3) are all carbon neutral. We continue sourcing 100% renewable electricity in our global operations, contributing to the green energy transition.

In 2022, total gross GHG emissions were 252 kilotonnes (2021: 290), a 13% decrease year-on-year and a 77% reduction compared to 2010. This decrease can be explained by significant emission reductions from air transport as well as energy saving in operations. Our operational emission intensity in tonnes of CO_2e per million-euro sales was 34 in 2022 (2021: 42).

As a manufacturing company, we still have unavoidable residual emissions, such as emissions from the use of natural gas in industrial processes. To fulfill our carbon neutral commitment, we invest in certified carbon offsetting projects.

Carbon offsetting is not part of our emission reduction strategy; instead, we invest in high quality carbon offsetting projects to only offset our unavoidable residual emissions. By doing so, we also enable actors in and out of our value chain to take action and cut their emissions. Carbon neutrality is not our end goal, it is how we choose to operate in addition to the 70% emission reduction already achieved. Carbon offsetting is only the last piece of the carbon neutrality puzzle.

In 2022, we offset 252 kilotonnes of CO_2e via carbon credits (2021: 290), resulting in a net operational carbon footprint of 0 (2021: 0).

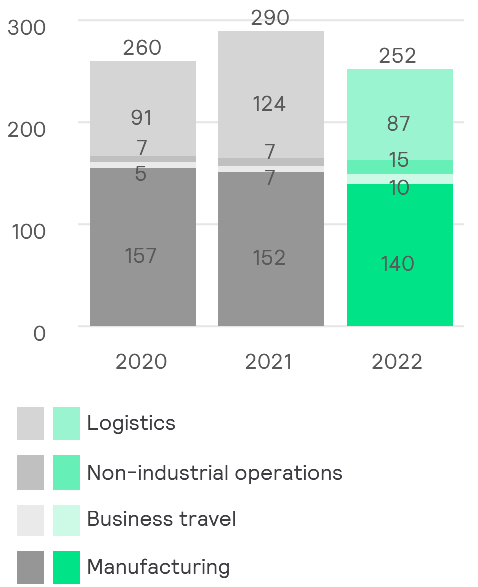
All used carbon credits have been certified by the Verra, Verra Climate, Community, and Biodiversity (CCB) Standards and the Clean Development Mechanism (CDM). Verra's diligence and transparency are underpinned by its fully publicly available Registry System.

The CDM are developed under the Kyoto Protocol and the United Nations Framework Convention on Climate Change. The mechanism stimulates sustainable development and emission reductions, while certifying emission reduction (CER) credits with these emission-reduction projects in developing countries.

Signify operational carbon footprint in kilotonnes

	2020	2021	2022
Scope 1	161	149	142
Scope 2 (market based)	1	10	13
Scope 3 logistics	91	124	87
Of which			
• Air transport	40	59	21
• Road transport	24	31	30
• Ocean transport	27	34	36
Scope 3 business travel	7	7	10
Total footprint	**260**	**290**	**252**
Scope 2 (location based)	160	186	140

Operational carbon footprint in kilotonnes



Manufacturing

In 2022, manufacturing accounted for 55% of our operational carbon footprint and amounted to 139 kilotonnes. This is a decrease of 9% compared to 2021. In 2022, we continued to lead operational changes and efficiency improvements, which resulted in less energy intensive activities and less energy consumption.

Non-industrial operations

In 2022, GHG emissions from non-industrial operations (offices, warehouses) represented 6% of our total operational carbon footprint. In 2022, our emissions from non-industrial operations increased by 8 kilotonnes compared to 2021 due to increased energy consumption in offices.

Logistics

In 2022, 34% of our total GHG emissions in our operations were attributed to logistics, and our total emissions from logistics decreased by 30% compared to 2021. This is a result of the improved sustainable logistics operations, such as reducing reliance on emission-intensive mode of transport - air transport.

Business travel

In 2022, our GHG emissions related to business travel accounted for 4% of our operational carbon footprint. Our absolute emissions from business travel remained at a low level despite an increase compared to 2021 due to loosened COVID constraints and recovery of business activities.

Energy use in operations

Our total energy usage in 2022 amounted to 3,811 terajoules. Our operational energy intensity in terajoules per million-euro sales was 0.51 in 2022. This is 4% more efficient than 2021 (0.53) and is due to operational optimization, improved energy efficiency, less reliance on energy-intensive activities in our factories and reduced heating and lighting requirements.

Electricity

In 2022, we procured 100% of our electricity from renewable sources. This achievement directly contributes to 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 6% of our renewable electricity was contracted via our energy providers, 52% was sourced through the procurement of renewable energy certificates, and 42% came from our participation in two Power Purchase Agreements (PPA) in the US and Poland. Our PPAs contribute to the transition to more sustainable electricity grids and reinforce our long-term commitment to using renewable electricity. In 2020, we signed the first pan European PPA, which will power European operations with green electricity from 2023 onwards.

Enabling carbon reduction for our customers

Phasing out conventional lighting and switching to energy-efficient LEDs, introducing solar lighting, and further enhancing energy saving with smart connected lighting has significant environmental benefits. As mentioned previously, the majority of our value-chain emissions lies in the product use phase. Helping our customers to reduce emissions through energy efficiency is a vital aspect of our innovation process.

Signify is committed to reduce GHG emissions by improving the energy efficiency of its products, systems, and services. Our target is to grow our Climate action revenues to 72% by the end of 2025.

To define which revenues contribute to climate action, we set the ambitious threshold of products with a luminous efficacy of 80 lm/W or more, depending of the lumen output. Climate action revenues are measured as a percentage of the total revenues per product family and tracked for each Division.

At the end of 2022, 65% of our revenues contributed to climate action (2021:61-64%)

By delivering cleaner and more energy-efficient solutions, we are proud to contribute to the achievement of SDG 7: Affordable and clean energy.

Philips A-class LED tube

In 2021, Signify broke new ground with the launch of the Philips LED A-class bulb, which consumes 60% less energy than a standard Philips LED. In 2022, the MASTER LEDtube UltraEfficient continues this technological innovation to expand the portfolio of energy-efficient products, which meet the A-class criteria of the new EU energy labeling and eco-design framework. Under these updated rules, lighting products need energy efficiency of at least 210 lm/W to be rated A-class, the highest rating.

Enabling carbon reduction at our suppliers

In 2022, we continued to engage with our suppliers to reduce their carbon footprint. Our approach is to proactively initiate, develop and support GHG emission-reduction activities at suppliers through our partnership with the CDP Supply Chain program. In 2022, we invited 501 (2021: 698) of our strategic suppliers to the program, of which 70% submitted the 2022 CDP questionnaire.

In 2022, 263 suppliers reported emission-reduction activities (2021: 269). 107 suppliers reported that their emissions decreased compared to the previous reporting year, 31% of suppliers reported renewable energy usage, and 36% suppliers engaged their own suppliers to reduce emissions. We increased the number of suppliers committed to the Science-Based Targets Initiative to 103 (2021: 46) and we increased the number of suppliers that have a RE100 program from 5 in 2021 to 14 in 2022.

We are developing a more accurate method to calculate scope 3 GHG emission in the supply base. At the end of 2022, we estimated that 24 million metric tons carbon of CO_2e were saved in our supply base (2021: 39 million metric tons).

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Setting Science-Based Targets in China

Signify was one of the first CDP Supply Chain members to start engaging Chinese suppliers on the importance to set Science-Based Targets (SBTs) to reduce GHG emissions. We nominated four of our high-impact China-based suppliers, of which two have now formally signed the Science-Based Targets Initiative (SBTi) commitment letter.
In a dedicated webinar to our suppliers, we explained how science-based target setting plays an important role in suppliers' evaluation. Once suppliers have formally committed to the SBTi, an emission calculation tool was provided to them to help the establishment of accurate emission rates.
Our collaboration with CDP was key to support our suppliers and monitor their progress and progress reports were shared at management level, to initiate actions where needed.

CDP reporters per region and topics reported

	Greater China		Rest of the World		Europe		Americas		Total	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
Scope 1	65%	62%	68%	67%	67%	66%	60%	65%	65%	64%
Scope 2	35%	33%	46%	53%	48%	44%	45%	57%	42%	43%
Scope 1 & 2	37%	36%	48%	58%	49%	50%	44%	57%	43%	47%
Have a reduction target	55%	55%	52%	58%	43%	46%	34%	48%	47%	51%
Have on-going reduction activities	63%	54%	61%	62%	51%	63%	39%	52%	54%	57%
Climate change opportunities	65%	70%	68%	67%	67%	73%	53%	73%	63%	71%
Climate change risks	57%	60%	45%	44%	46%	52%	42%	56%	49%	55%
Integrated climate change in risk management	21%	31%	38%	44%	38%	38%	34%	51%	30%	38%
Total amount of reporters	**190**	**141**	**56**	**45**	**136**	**103**	**116**	**63**	**498**	**352**

16.4.2 Circular economy

Accelerating the transition to a circular economy

In 2022, humanity was using 1.8 times the resources our planet can sustain. At Signify, we identified five strategic areas where we will grow our business while furthering our contribution to a better and more sustainable world. These five growth areas are defined based on the major trends facing society, and on the United Nations Sustainable Development Goals. One of these growth areas is Circular economy.

As the world continues to overuse its limited resources, scarce materials will become more challenging to source. We need to do better, and we believe that the transition to a circular economy is instrumental.

With circular lighting solutions we can preserve value and avoid waste. That is why, as part of our Brighter Lives, Better World 2025 sustainability program, we have the ambition to double our revenues from circular products, systems, and services to 32% by the end of 2025.

Additionally, we are committed to more sustainable packaging, removing plastics from all our consumer packaging in 2023, and to sending zero waste to landfill.

Our actions cover the entire life cycle of a product (from production, use and re-use to waste management) and directly contribute to the achievement of 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 2022. 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 products that can be upgraded, serviced, reused, refurbished, or recycled. In 2022, we launched our lighting for circularity website to provide more insights on our products, systems and services designed for a circular economy: https://www.signify.com/global/sustainability/lighting-for-circularity.

Our circular innovations cover four categories: Serviceable luminaires, Circular components, Intelligent asset management, and Circular services.

Serviceable luminaires are fixtures that are upgradable, serviceable, connectable, energy-efficient, reusable, and recyclable. In 2022, we launched the StoreSet linear product, designed to reuse existing infrastructure in place. This new range of track-based luminaires can easily be serviced, since all components can be replaced without tools, enabling maintenance or upgrading to meet the emerging needs of customers. Instead of replacing the whole luminaire, modules can be exchanged preserving value and avoiding waste.

Another example of serviceable luminaires is our 3D printed luminaires, designed in a modular way and easily upgradable. Our Coastal Breeze collection is 3D printed using discarded fishing nets for cleaner oceans and a low carbon footprint. In 2022, the 3D-printed Coastal Breeze pendant lamp won the prestigious Gold IDEA 2022 design award and received an honorable mention in the Fast Company Innovation by Design awards.

Circular components are exchangeable and have recyclable parts, such as drivers, controls, and LED boards.

Intelligent asset management monitors serviceable luminaires to enable preventive maintenance. Signify connected systems tell us exactly when and where to perform maintenance, cutting down on waste, costs, downtime, and manpower.

Circular services aim at prolonging lifetimes and provide customers with services that combine lighting design, installation and maintenance in a single contract.

We closely monitor and report the progress of the circular portfolio contribution, and at the end of 2022, 29% of our revenues came from circular products, systems or services (2021: 21-25%).

Our efforts also address supply chain improvements, such as remote serviceability (connected lighting) and end-of-life services. By minimizing material 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.

Zero Waste to landfill

We are committed to send zero manufacturing waste to landfill and keep the recycle rate as high as possible.

In 2022, our focus has been on driving continuous improvements and process optimization across the globe. At the end of the year, Signify was sending zero waste to landfill according to its commitment and only one site from a recent acquisition was still transitioning to reach this status.

We improved our practices regarding waste segregation, waste awareness training and sharing best practices across regions. In 2022, Signify registered 1.61 kilotonnes of hazardous waste (2021: 1.96 kilotonnes), of which 53% was recycled. We will continue our efforts to reduce our hazardous waste by 5% annually.

Our recycling programs address waste arising from manufacturing activities, such as glass or canteen waste, as well as from suppliers, such as packaging materials. 89% of total waste was recycled in 2022 and we continued to recycle 100% of our metal and glass waste.

Total manufacturing waste consists of waste that is delivered for recycling, incineration or landfill. For more details on our commitment scope, please refer to our Sustainability Supplements to the Annual Report.

Recycling rate per waste category

	2020	2021	2022
Canteen waste	43%	66%	72%
Chemical Waste	29%	36%	45%
Electrical and Electronic Waste	99%	100%	99%
Glass (line rejects)	100%	100%	100%
Metal scrap	100%	100%	100%
Paper/cardboard	99%	99%	97%
Plastic waste	79%	81%	84%

Manufacturing waste in kilotonnes

	2020	2021	2022
Recycled	30 (91%)	38.7 (89%)	37.7 (89%)
Incinerated	1.9 (6%)	3.8 (9%)	3.8 (9%)
Landfilled	0.9 (3%)	0.9 (2%)	0.6 (1.5%)
In scope of commitment	0 (0%)	0.4 (0.88%)	0.2 (0.49%)
Total waste	**32.8**	**43.8**	**42.2**

16.4.3 Responsible packaging

Signify pursues a reduction of the environmental impact of its packaging. Our packaging policy encourages packaging designers, procurement 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 the use of 80% recycled paper, and up to 50% of recycled content when PET plastic is used.

In 2019, we started our journey to phase out all plastic packaging material from our consumer portfolio globally. At the end of 2020, all new LED lamps packaging in Europe shifted from blister to paper boxes. In 2021 and 2022, we progressed further by replacing remaining plastic applications, such as plastic bags, protective films, plastic caps, cable binders, tape and stickers. And by the end of 2022, our consumer packaging was plastic-free in all our markets except in China for two product lines, which we plan to make plastic-free in 2023.

We calculated at the beginning of our journey, based on our 2020 portfolio, that through our efforts we would be able to remove 2,500 tonnes of plastic from our consumer product packaging every year.

Based on our methodology for calculating societal impact, we decreased our societal cost by EUR 0.2 million by eliminating plastic from our packaging in 2022.

Our new packaging is also smaller, reducing GHG emissions from transport and the materials we use by 6,000 tonnes per year. This is the equivalent of the GHG emissions that 270,000 fully-grown trees can absorb in a year.

16.4.4 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) Regulation. 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 2022, 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 chemical usage in manufacturing sites and have been actively phasing out several hazardous substances.

Emissions from mercury

The target to achieve emissions As Low As Reasonably Achievable (ALARA) was met in 2015 and we continue to closely monitor usage, emissions and exposure and drive further improvement where possible. For instance, since 2012 the emissions from mercury drastically decreased by changing our production processes and replacing liquid mercury with solid-state mercury.

Additionally, with the transition from conventional lighting to LED lighting, it is expected that the use of mercury will remain at a very low level or 0 in the coming years.

Emissions from mercury in kilograms

	2020	2021	2022
Mercury and mercury compounds	0.01	0	0

In 2022, emissions from mercury and mercury compounds totalled 0 kilogram.

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 2022, we continued the shift from chemical painting to water-based paint and powder coating process.

Due to the progressive replacement of coil ballasts with electronic ballasts and the closure of production lines, styrene emissions have been eliminated since 2020.

Emissions of VOCs in lacquering processes

	2020	2021	2022
Lead and lead compounds	–	0	0
Styrene	0	0	0
Toluene	37	1.2	1.2
Xylene	767	822.3	717.2

16.4.5 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 might 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 19% of our global water consumption is located in regions classified as having high-water scarcity (2021:23%).

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 that have a lower dependency on water. We aim to reduce our water usage by 5% annually.

Total water intake in 2022 was 1,163,961 m^3, 19% lower than 2021 (1,432,000 m^3). This decrease was partly due to the closure of three sites in 2022.

61% of our water intake is used for domestic purposes.

Water intake in thousands of m^3

	2020	2021	2022
Total water	971	1,432	1,164

Based on our methodology for calculating societal impact, we caused EUR 3 million in costs to society through our water usage.

16.4.6 Biodiversity

Biodiversity is the variety of life on earth and includes all types of living organisms, from micro-organisms to entire ecosystems and the non-living environment on which they depend. Over the last years, biodiversity protection has gained significant importance, and different frameworks are being released about the subject. The result of our materiality assessment shows that biodiversity is gaining importance.

We acknowledge that it is our responsibility to identify our negative and positive impacts and to take action for biodiversity conservation. In 2022, Signify organized a workshop involving strategic internal stakeholders and external expert to discuss our impact on biodiversity at distinct levels (supply chain, operations, and in the use phase). Thanks to the workshop, we were able to further assess our impacts and define the next steps towards our Biodiversity Roadmap 2025.

Signify follows international standards ISO 14001 which helps us to monitor and minimize the negatives impact in the local environment and consequentially on biodiversity.

In 2022, we re-performed the assessment started in 2021 to identify the potential presence of manufacturing sites in key biodiversity areas or protected areas using the Integrated Biodiversity Assessment Tool (IBAT). Key biodiversity areas are sites contributing significantly to the global persistence of biodiversity. Protected areas are classified according to their management objectives, and examples of protected areas are strict nature reserve, wilderness area, or protected landscape (source: International Union for Conservation of Nature). Signify uses a total of 175 hectares of land for its manufacturing activities and in 2022, none of our manufacturing sites were located in a protected or a key biodiversity area. We also deepened our assessment by interviewing eleven sites located at a distance of two kilometers or less from these areas. We evaluated our potential negative impact on land, soil, water and air using the Taskforce on Nature-related Financial Disclosures (TNFD) beta framework. Considering the individualities of each site, it was possible to identify that no further mitigation actions were necessary at the moment.

Detailed impact assessment in our supply chain and use phase is part of our biodiversity roadmap towards 2025. We have already identified that potential negative impacts in our supply chain might be related to mining activities in our supply base. Also, poor quality lighting can increase light pollution and sky glow and as a consequence can negatively impact biodiversity in the use phase.

To mitigate potential negative impact on biodiversity, we already have processes and activities in place such as:

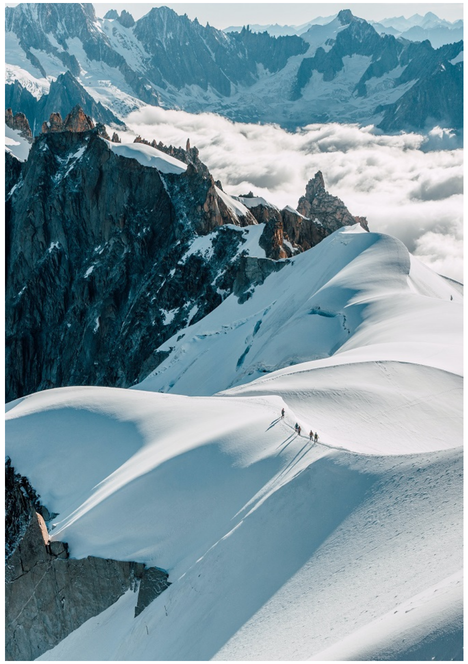
- Our sustainable supply chain program which covers, besides other points, environmental impact and management systems in our supply base.
- Our sustainable packaging requirements, which stand against deforestation of natural forests and habitats and promote the use of sustainable materials.
- Our plastic-free packaging achievement in consumer related products, which contributes to less plastic pollution in nature and oceans.
- Our horticulture lighting portfolio, which contributes to vertical farming to increase food production while decreasing land use and the use of fertilizers and pesticides.
- Our light spectrum, which helps maintaining 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 from acting as borders or obstacles to be crossed at night.

In 2022, we continued to contribute to conserving and restoring forests. For example, our project in Belize ensures that more than 565 hectares of forest and wildlife in the Mesoamerican Biological Corridor are preserved. The Rio Anapu-Pacaja REDD Carbon Credit Project in Portel, Para is protecting 165,707 hectares in a highly critical region of the Brazilian Amazon.

Based on our methodology for calculating societal impact, we created EUR 73 million for society through conserving and preserving forests in 2022.

16.4.7 Environmental incidents

In 2022, Signify experienced no significant environmental incidents.



16.5 EU Taxonomy

The European Commission has established the EU Taxonomy as an important enabler to scale up sustainable investments and make the EU carbon neutral by 2050. At Signify, we want to be a catalyst for change, and are committed to doubling our positive impact on the environment and society. We continuously seek opportunities to increase transparency and showcase our leadership.

The EU Taxonomy reporting framework and requirements

To define what is "sustainable", the European Commission has developed a catalog of economic activities, each with criteria to determine if they substantially contribute towards a sustainable economy – known as the EU Taxonomy. Companies across diverse sectors, supply chains, and asset classes must use this classification system to assess if their business activities are sustainable. In June 2021, the Commission formally adopted the Climate Delegated Act, establishing the criteria defining which activities substantially contribute to the first two, out of six, environmental objectives of the Taxonomy regulation. For its financial year 2022, Signify discloses eligibility and alignment on the first two environmental objectives, climate change mitigation and climate change adaptation.

Signify's economic activities

The currently available definitions as included in the Taxonomy are broadly formulated which leads to companies including Signify having to interpret how this applies to their business activities. We applied judgment, interpretations and assumptions based on currently available information. Future guidance could result in more accurate definitions and other decision-making in meeting reporting obligations, which could impact our future Taxonomy reporting.

The analysis of Signify's economic activities in the context of the EU Taxonomy has revealed the following lighting specific activities that contribute specifically to the environmental objective of climate change mitigation.

- 3.5 Manufacture of energy efficiency equipment for buildings. We allocate manufacturing of LED and Connected technologies for Indoor spaces to this economic activity.
- 3.6 Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy. We allocate manufacturing of LED and Connected technologies for Outdoor spaces to this economic activity.
- 7.3 Installation, maintenance and repair of energy efficiency equipment. We allocate installation, maintenance and repair activities of lighting products such as lamps and luminaires, without controls, for indoor spaces to this economic activity.
- 7.5 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings. We allocate installation, maintenance and repair activities of lighting systems, such as luminaires with control modules, for indoor spaces to this economic activity. The system might also include sensors, triggers, software, on-site or cloud connectivity.

The analysis of the economic activities in the context of the EU Taxonomy has not revealed any activities that contribute specifically to the environmental objective of climate change adaptation.

Signify's 2022 assessment

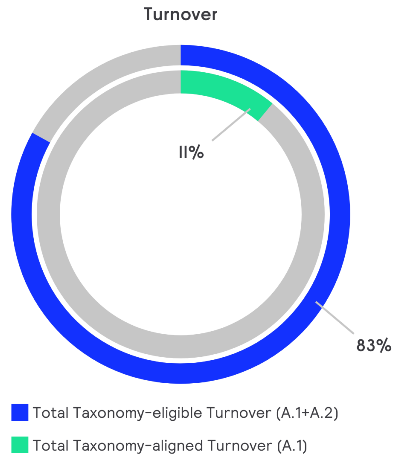
The EU Taxonomy defines Turnover, Capital Expenditure (CapEx) and Operating Expenditure (OpEx) as the key performance indicators that must be reported on. The financial figures relevant for Signify's EU Taxonomy reporting are based on the IFRS consolidated financial statements for fiscal year 2022. Signify has compiled the financial figures based on the lighting technology, whereby LED and connected lighting are included, and conventional lighting is excluded. Allocation formulas have been used for CapEx and OpEx. If possible, figures have been directly assigned to an economic activity.

Turnover

The EU Taxonomy regulation describes the eligible turnover as the part of the net turnover derived from products or services, including intangibles, associated with Taxonomy-eligible economic activities. An economic activity is considered Taxonomy-eligible if it is listed in the EU Taxonomy delegated acts. The following list sets out Signify's Taxonomy-eligible turnover, contributing to the environmental objective of climate change mitigation:

- Revenue of the manufacturing of LED and Connected technologies, for Indoor spaces (3.5) and Outdoor spaces (3.6);
- Revenue of the installation, maintenance and repair of energy-efficient lighting, without controls (7.3) and with control modules (7.5).

This resulted in EUR 6,242 million of Taxonomy-eligible turnover (A.1+A.2, see graph) in 2022. Of the Taxonomy-eligible turnover, EUR 826 million met the screening criteria used to measure the substantial contribution to climate change mitigation (A.1). This includes our products in the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369; automation and controls systems and sensors; outdoor luminaires aimed at demonstrating substantial life-cycle GHG emission savings quantified by an external third party with verification due in 2023; and the installation, maintenance and repair of energy-efficient light sources and lighting control systems. When data requirements for alignment reporting are not met, the associated revenues have not been considered as aligned.



Signify uses the European Product Registry for Energy Labelling (EPREL) as the starting point for determining the highest two populated classes, as required. For product groups that are incomplete or misleading in EPREL, we looked at our portfolio's energy labels distribution. As a conclusion, Signify defines the highest two populated classes as follows:

- A & B classes for lamps and consumer luminaires.
- C & D classes (on luminaire level) for professional indoor luminaires.
- E & F classes for color controllable lamps.

CapEx

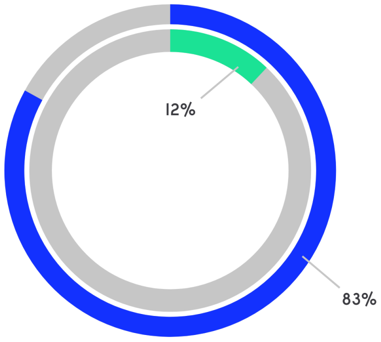
The EU Taxonomy regulation describes Taxonomy-eligible CapEx as the capital expenditure:

- Related to assets or processes that are associated with Taxonomy-eligible economic activities.
- Part of a plan to expand Taxonomy-eligible economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned.
- Related to the purchase of output from Taxonomy-eligible economic activities and individual measures.

The following list sets out Signify's Taxonomy-eligible CapEx contributing to the environmental objective of climate change mitigation:

- CapEx related the manufacturing of LED and Connected technologies, for Indoor spaces (3.5) and Outdoor spaces (3.6), and the annual revenue of the installation, maintenance and repair of energy-efficient lighting, without controls (7.3) and with control modules (7.5).
- CapEx related to expand these Taxonomy-eligible economic activities, as well as expenditures that will allow non-eligible activities to become Taxonomy-eligible (i.e., new production lines and extension of production capacity of LED and Connected technologies).
- CapEx related to the purchase of output from Taxonomy-eligible economic activities and individual measures (i.e. freight vehicles and company cars acquired or taken as a lease, lease contracts for new or renovated buildings, energy efficiency improvement measures in buildings, purchase of energy-efficient equipment for buildings, solar panels installation, maintenance and repair, and data processing, hosting and related activities).

Of the Taxonomy-eligible capital expenditures of EUR 198 million (A.1+A.2), Signify used the Taxonomy-aligned turnover proportion per business unit as allocation formula to calculate the Taxonomy-aligned CapEx of EUR 29 million (A.1).



OpEx

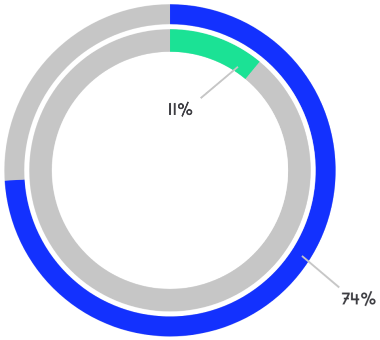
The EU Taxonomy regulation describes Taxonomy-eligible OpEx as the operational expenditures:

- Related to assets or processes that are associated with Taxonomy-eligible economic activities.
- Part of a plan to expand Taxonomy-eligible economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned.
- Related to the purchase of output from Taxonomy-eligible economic activities and individual measures.

The following list sets out Signify's Taxonomy-eligible operational expenditures, contributing to the environmental objective of climate change mitigation:

- OpEx related to the manufacturing of LED and Connected technologies, for Indoor spaces (3.5) and Outdoor spaces (3.6), and the annual revenue of the installation, maintenance and repair of energy-efficient lighting, without controls (7.3) and with control modules (7.5).
- OpEx related to expand these Taxonomy-eligible economic activities as well as expenditures that will allow non-eligible activities to become Taxonomy-eligible (i.e., research in new lighting technologies).
- OpEx related to the purchase of output from Taxonomy-eligible economic activities and individual measures (i.e.,day-to-day servicing of assets of property, plant and equipment).

Of the Taxonomy-eligible operational expenditures of EUR 365 million (A.1+A.2), Signify used the Taxonomy-aligned turnover proportion per business unit as allocation formula to calculate the Taxonomy-aligned OpEx of EUR 55 million (A.1).



Eligibility and alignment disclosures for turnover, CapEx and Opex contributing to the objectives of climate change mitigation and adaptation

	2021 (original)			2021 (restated)[1]			2022		
	Turnover	CapEx	OpEx	Turnover	CapEx	OpEx	Turnover	CapEx	OpEx
Taxonomy-eligible and aligned (A.1)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11%	12%	11%
Taxonomy-eligible but not aligned (A.2)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	72%	71%	63%
Total Taxonomy-eligible activities (A=A1+A2)	**45%**	**51%**	**44%**	**83%**	**85%**	**76%**	**83%**	**83%**	**74%**
Total Taxonomy-non-eligible activities (B)	55%	49%	56%	17%	15%	24%	17%	17%	26%
Total (EUR million)	6,860	213	456	6,860	213	456	7,514	238	492

1 Definition of taxonomy-eligible turnover has been updated. Climate action revenues are no longer used for the calculation of Taxonomy-eligible activities. Reporting of our third-party manufacturing activities has been adjusted to follow the IFRS rules for revenue recognition. Sales of products manufactured by subcontractors are included in the Taxonomy-eligible proportion as Signify controls the circumstances under which the subcontractor works.

Do No Significant Harm criteria

The EU Taxonomy Regulation establishes that an economic activity must Do No Significant Harm (DNSH) to any of the other environmental objectives. To determine whether there was any substantial harm to the other environmental objectives of the Taxonomy (see below), we have gathered information about our measurements, processes and policies for each of the DNSH criteria covering the economic activities 3.5, 3.6, 7.3 and 7.5. The assessment confirmed that we meet the requirements of the DNSH criteria.

DNSH to Climate change adaptation

We performed a climate risk and vulnerability assessment to identify potential physical and transition risks in our value chain (upstream and downstream). Regarding the physical risks, we have analyzed all the climate-related hazards listed in appendix A from Annex 1 of the EU Taxonomy and focused on assessing physical risks relevant to Signify's manufacturing sites, warehouses and distribution centers, namely riverine flooding, coastal flooding, drought, tropical storm, and heatwave for the short-term (2025) and two long-term (2050) scenarios. The two long-term scenarios cover below 2°C or SSP1-2.6 scenario – taking the sustainable road, and an above 4°C or SSP5-8.5 scenario – fossil fueled development path. In the 2022 assessment, no material risks have been identified. For more details on our Climate risk and vulnerability assessment, please refer to our TCFD reporting in the Sustainability Supplements to the 2022 Annual Report.

DNSH to Sustainable use and protection of water and marine resources

For all our operations, Signify follows the local environmental regulation and has developed local studies about water impact when relevant based on the sites' operation and location. We operate in accordance with the international standards ISO 14001 and ISO 45001, as stipulated in our EHS Policy. The assessment confirmed that we meet the requirements of the DNSH criteria. For more information about water management, please refer the sub-section 16.4.4, Water.

DNSH to Transition to a circular economy

Our Circular economy growth area, part of Signify's 5 Frontiers strategy, focuses on developing lighting products, systems and services that can be repaired, refurbished, reused or recycled, and have high durability with the aim to preserve value and avoid waste. We are sending zero manufacturing waste to landfill since 2020. Our Sustainability Policy reinforces our commitment to shift to a more circular economy with responsible consumption and production in mind. Our Sustainable Design Procedure is a mandatory procedure for all Signify R&D organizations and business and aims to further improve the sustainability performance and benefits of our portfolio. With other companies in the European lighting market, Signify founded the Collection and Recycling Service Organizations (CRSOs) to establish a dedicated infrastructure for the collection and recycling of conventional lamps, LED, and (LED) luminaires. Through our commitments, procedures and current activities, Signify mitigates the risk of harming the objective of transitioning to a circular economy. For more information about our actions towards a circular economy, please refer to sub-section 16.4.2, Circular economy.

DNSH to Pollution prevention and control

Signify has a strict policy towards pollution and prevention control. We control the use and disposal of all raw materials necessary for our operations, following all the local regulations. Signify requires all its suppliers to communicate all substances in their components and to comply with the stipulations that we have listed in our Regulated Substance List (RSL). For more information about pollution and prevention control, please refer to sub-section 16.4.4, Hazardous Substances.

DNSH to Protection and restoration of biodiversity and ecosystems

Signify recognizes the value of preserving ecosystems and biodiversity. In all our operations, we follow at minimum local environmental regulations. To assess our impact on sensitive areas, Signify developed a screening process and concluded that none of our sites are located in Key Biodiversity Areas or Protected Areas. For sites near biodiversity-sensitive areas, we concluded that no further mitigations actions are required. For more information about biodiversity and ecosystems, please refer to sub-section 16.4.6 Biodiversity.

Minimum Social Safeguards

The Minimum Social Safeguards (MSS) provision of the EU Taxonomy Regulation requires companies involved in environmentally sustainable activities to respect basic human rights and follow good business conduct rules. Environmentally sustainable economic activities must also meet criteria for responsible business conduct already outlined in the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights, the Fundamental Conventions of the International Labour Organisation (ILO) and the International Bill of Human Rights. We assessed the coverage of our codes and standards to the principles and policies under the MSS of the EU Taxonomy. Based on Signify's interpretation of the guidance on MSS, the assessment confirmed that we meet the requirements of the MSS criteria. In addition, the company is committed to a continuous improvement of its human and labor rights performance.

Complementary information

A full reconciliation was made to the total reported turnover, CapEx and OpEx information to avoid double counting in the allocation of the numerators. The detailed results following the format of the Taxonomy Regulation can be found in the following pages. Signify understands and appreciates the fact that the EU Taxonomy framework is in constant evolution, and that the company's reporting obligations will continue to grow and evolve over the next years. Assessment of the 2022 results are pending further EU Taxonomy's market practice and comparability. Signify is committed to increasing its taxonomy-eligibility and taxonomy-alignment percentages independently of regulatory developments.

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities – disclosure covering year 2022

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')								
	EU NACE CODE	Absolute Turnover	Proportion of total Turnover	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of Turnover year 2022	Category (Enabling or Transitional)
Economic activities		EUR million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E/T
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1 Taxonomy-eligible and aligned activities (Taxonomy-Aligned)																		
Manufacture of energy efficiency equipment for buildings (3.5)	C27.40	229	3.0%	3.0%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	Y	Y	Y	Y	Y	3.0%	E
Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy (3.6)	C27.40	584	7.8%	7.8%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	Y	Y	Y	Y	Y	7.8%	E
Installation, maintenance and repair of energy efficiency equipment (7.3)	F43.21	5	0.1%	0.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	n.a.	n.a.	Y	n.a.	Y	0.1%	E
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings (7.5)	F43.21	9	0.1%	0.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	n.a.	n.a.	n.a.	n.a.	Y	0.1%	E
Total Turnover from taxonomy-eligible and aligned activities (A.1)		**826**	**11.0%**	**11.0%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**11.0%**	**E**
A.2 Taxonomy-eligible but not aligned activities (Taxonomy-Eligible)																		
Manufacture of energy efficiency equipment for buildings (3.5)	C27.40	4,292	57.1%	57.1%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy (3.6)	C27.40	1,124	15.0%	15.0%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Installation, maintenance and repair of energy efficiency equipment (7.3)	F43.21	–	–%	–%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings (7.5)	F43.21	–	–%	–%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Total Turnover of taxonomy-eligible but not aligned activities (A.2)		**5,416**	**72.1%**	**72.1%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**–%**	**n.a.**
Total Taxonomy-eligible Turnover (A.1 + A.2)		**6,242**	**83.1%**	**83.1%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**11.0%**	**n.a.**
B. TAXONOMY NON-ELIGIBLE ACTIVITIES																		
Total Turnover of Taxonomy-non-eligible Activities (B)		1,272	16.9%															
Total (A+B)		**7,514**	**100.0%**															

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering year 2022

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')								
	EU NACE CODE	Absolute CapEx	Proportion of total CapEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of CapEx year 2022	Category (Enabling or Transitional)
Economic activities		EUR million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E/T
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1 Taxonomy-eligible and aligned activities (Taxonomy-Aligned)																		
Manufacture of energy efficiency equipment for buildings (3.5)	C27.40	8	3.4%	3.4%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	Y	Y	Y	Y	Y	3.4%	E
Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy (3.6)	C27.40	21	8.7%	8.7%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	Y	Y	Y	Y	Y	8.7%	E
Installation, maintenance and repair of energy efficiency equipment (7.3)	F43.21	0.2	0.1%	0.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	n.a.	n.a.	Y	n.a.	Y	0.1%	E
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings (7.5)	F43.21	0.3	0.1%	0.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	n.a.	n.a.	n.a.	n.a.	Y	0.1%	E
Total CapEx from taxonomy-eligible and aligned activities (A.1)		**29**	**12.4%**	**12.4%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**12.4%**	**E**
A.2 Taxonomy-eligible but not aligned activities (Taxonomy-Eligible)																		
Manufacture of energy efficiency equipment for buildings (3.5)	C27.40	135	56.7%	56.7%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy (3.6)	C27.40	33	14.0%	14.0%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Installation, maintenance and repair of energy efficiency equipment (7.3)	F43.21	–	–%	–%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings (7.5)	F43.21	–	–%	–%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Total CapEx of taxonomy-eligible but not aligned activities (A.2)		**169**	**70.8%**	**70.8%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**–%**	**n.a.**
Total Taxonomy-eligible CapEx (A.1 + A.2)		**198**	**83.1%**	**83.1%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**12.4%**	**n.a.**
B. TAXONOMY NON-ELIGIBLE ACTIVITIES																		
Total CapEx of Taxonomy-non-eligible Activities (B)		40	16.9%															
Total (A+B)		**238**	**100.0%**															

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering year 2022

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')								
	EU NACE CODE	Absolute OpEx	Proportion of total OpEx	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystems	Minimum safeguards	Taxonomy-aligned proportion of OpEx year 2022	Category (Enabling or Transitional)
Economic activities		EUR million	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E/T
A. TAXONOMY-ELIGIBLE ACTIVITIES																		
A.1 Taxonomy-eligible and aligned activities (Taxonomy-Aligned)																		
Manufacture of energy efficiency equipment for buildings (3.5)	C27.40	15	3.1%	3.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	Y	Y	Y	Y	Y	3.1%	E
Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy (3.6)	C27.40	39	7.9%	7.9%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	Y	Y	Y	Y	Y	7.9%	E
Installation, maintenance and repair of energy efficiency equipment (7.3)	F43.21	0.3	0.1%	0.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	n.a.	n.a.	Y	n.a.	Y	0.1%	E
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings (7.5)	F43.21	0.6	0.1%	0.1%	–%	n.a.	n.a.	n.a.	n.a.	Y	Y	n.a.	n.a.	n.a.	n.a.	Y	0.1%	E
Total OpEx from taxonomy-eligible and aligned activities (A.1)		**55**	**11.3%**	**11.3%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**11.3%**	**E**
A.2 Taxonomy-eligible but not aligned activities (Taxonomy-Eligible)																		
Manufacture of energy efficiency equipment for buildings (3.5)	C27.40	249	50.6%	50.6%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Manufacture other low carbon technologies that result in substantial GHG emission reductions in other sectors of the economy (3.6)	C27.40	61	12.3%	12.3%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Installation, maintenance and repair of energy efficiency equipment (7.3)	F43.21	–	–%	–%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings (7.5)	F43.21	–	–%	–%	–%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	–%	n.a.
Total OpEx of taxonomy-eligible but not aligned activities (A.2)		**309**	**62.9%**	**62.9%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**–%**	**n.a.**
Total Taxonomy-eligible OpEx (A.1 + A.2)		**365**	**74.1%**	**74.1%**	**–%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**11.3%**	**n.a.**
B. TAXONOMY NON-ELIGIBLE ACTIVITIES																		
Total OpEx of Taxonomy-non-eligible Activities (B)		127	25.9%															
Total (A+B)		**492**	**100.0%**															

17 Combined independent auditor's report

On the 2022 financial statements and sustainability information

To: the Annual General Meeting of Shareholders and Supervisory Board of Signify N.V.

Our opinions

We have audited the financial statements 2022 of Signify N.V. (hereafter: the Company) based in Eindhoven, the Netherlands. The financial statements comprise the consolidated and 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, 2022, and of its result and its cash flows for 2022 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, 2022, and of its result for 2022 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

We have audited the sustainability information in the Annual Report 2022 of Signify N.V. based in Eindhoven, the Netherlands (hereafter: the Annual Report). The scope is described in the section Our Scope of our report. This 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 in 2022.

in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) and the applied supplemental reporting criteria as disclosed in chapter 16, Sustainability statements, section 16.1, Approach to sustainability reporting.

Basis for our opinions

We conducted our audit of the financial statements and our audit of 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” respectively, 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 of our report.

We believe 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, 2022.
- The following statements for 2022: the consolidated statement 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 company balance sheet as at December 31, 2022.
- The company profit and loss account for 2022
- The notes comprising a summary of the accounting policies and other explanatory information.

The sustainability information is included in chapter 3, Creating long-term value, sections 3.2, Our impact and 3.3, Our value created, chapter 4, Corporate performance, section 4.2, Sustainability performance, and chapter 16, Sustainability statements, sections 16.1 to 16.4, excluding section Responsible Tax Policy, as included in sub-section 16.3.5, Business Ethics.

Limitations to the scope of our audit engagement on the sustainability information

The sustainability information includes prospective information, such as goals, strategy, plans, forecasts, expectations and estimates. Inherent to this 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.

With regards to the Company's sustainability information, the 2019 baseline is based on Signify's best estimates available at the time of start of the Brighter Lives, Better World 2025 doubling commitments in 2021. Furthermore, Signify is making progress, but still working on further improvements on both availability and accuracy of the data used in its sustainability reporting. Therefore, neither the 2019 baseline assumptions, nor the "Double the pace" of the Paris Agreement are included in the scope of our audit engagement of the sustainability information. We refer to chapter 16, Sustainability statements, sub-section 16.4.1, Climate action, for more information.

Calculations to determine societal impact as included in chapter 3, Creating long-term value, section 3.3, Our value created, are mostly based on external sources and by using several assumptions. The assumptions and sources used are explained in the document 'Methodology for societal impact calculations' and the 'Supplement to the 2022 Sustainability statements' as available on the website of Signify N.V.. We have not performed procedures on the assumptions or external sources, other than evaluating the suitability of these assumptions and external sources used.

The references to external sources or websites in the sustainability information are not part of the sustainability information as audited by us. We therefore do not provide assurance on this information.

Our opinion is not modified in respect of these matters.

Reporting criteria

The reporting criteria used for the preparation of the Annual Report are described in the section Our opinions of our report.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Consequently, the sustainability information needs to be read and understood together with the reporting criteria used.

Information in support of our opinions

We designed our audit procedures in the context of both our audit of the financial statements and our audit of the sustainability information as a whole and in forming our opinions thereon. The following information in support of our opinions and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

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 start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements and the sustainability information, whether due to error or fraud, 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 opinions.

Materiality

General

The scope of our audit procedures is influenced by the application of materiality. Our audit engagements aim to provide assurance about whether the financial statements and the sustainability information are free from material misstatement. Misstatements might arise due to error or fraud. 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 conclusions.

Financial statements

Materiality	EUR 32 million (2021: EUR 32 million)
Benchmark applied	Approximately 4% of adjusted earnings before interest, tax and amortization (Adjusted
Explanation	Based on our professional judgment we consider earnings-based measures as the most appropriate basis to determine materiality. Adjustments are made to earnings before interest, taxes and amortization for elements that are not directly related to the operational performance of the company as disclosed in chapter 18, Reconciliation of non-IFRS measures.

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 agreed with the Supervisory Board that misstatements in excess of EUR 1.6 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 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 company.

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.

Scope of 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.

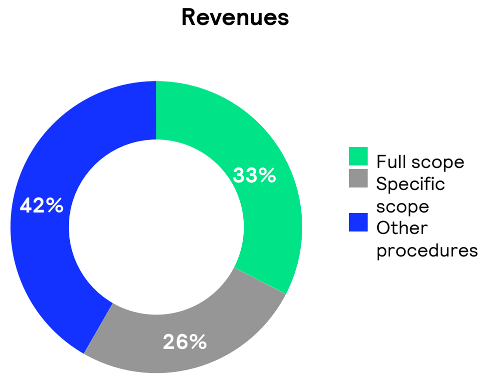
Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile 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.

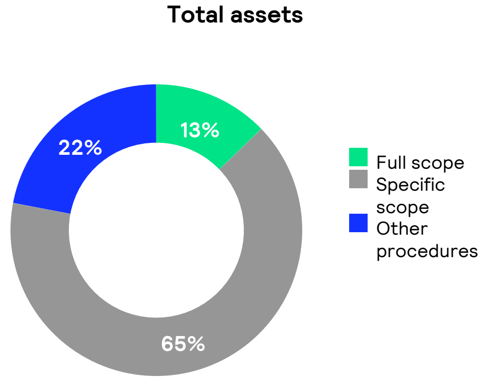
Following our assessment of the risk of material misstatement to Signify N.V.'s consolidated financial statements, we have selected two components that required an audit of the complete financial information (Full Scope Components). We have selected 27 components requiring audit procedures on specific 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 that are managed centrally such as goodwill, acquisitions, 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 of the group, 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 about the Consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences that 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 climate related risks and the energy transition

Climate change and the energy transition are high on the public agenda. Issues such as CO2 reduction impact financial reporting, as these issues entail risks for the business operation, the valuation of assets ("stranded assets") and provisions or the sustainability of the business model and access to financial markets of companies with a larger CO2 footprint. The Sustainability statements summarize, amongst other topics, Signify's commitments and obligations and how the company is addressing climate-related and environmental risks.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the possible effects of the energy transition are taken into account in estimates and significant assumptions as well as in the design of relevant internal control measures by Signify N.V.. Furthermore, we read the Board of Management report and considered whether there is any material inconsistency between the non-financial information in chapter 16, Sustainability statements, and the financial statements.

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 we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that both the financial statements and the sustainability information taken as a whole, are free from material misstatement, whether caused by fraud or error. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud might involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Our audit response related to fraud risks

We identified and assessed the risks of material misstatements of the financial statements and the sustainability information due to fraud. During our audits we obtained an understanding of the entity and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes.

We refer to chapter 12, Risk factors and risk management, for management's (fraud) risk assessment and chapter 8, Supervisory Board report, section 8.2, Key discussion topics and meetings in 2022, in which the Supervisory Board reflects on this (fraud) risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle-blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls designed to mitigate fraud risks.

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 cooperation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present. As Signify N.V. is a global company operating in multiple jurisdictions, we considered the risk of bribery and corruption.

We incorporated elements of unpredictability in our audits. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls. For these risks we have performed procedures among others to evaluate key accounting estimates for management bias that might represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in note 1, Basis of preparation, of chapter 14, Consolidated financial statements. We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties. These risks did however not require significant auditor's attention.

The following fraud risk identified did require significant attention during our audit:

Presumed risk of fraud in revenue recognition	
Fraud risk	We presumed that there are risks of fraud in revenue recognition. We evaluated that revenue from sales of goods recognized at a point in time in particular gives rise to such risks. We also considered whether the judgments and assumptions in the determination of these revenues indicate a management bias that might represent a risk of material misstatement due to fraud.
Our audit approach	We describe the audit procedures responsive to the presumed risk of fraud in revenue recognition in the description of our audit approach for the key audit matter "Improper revenue recognition".

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal, compliance and heads of Divisions) and the Supervisory Board.

The fraud risks we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements or the sustainability information.

Our audit response related to risks of non-compliance with laws and regulations

We performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, we assessed factors related to the risks of non-compliance with laws and regulations, including bribery and corruption that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes, inspection of internal audit and compliance reports, and performing substantive tests of details of classes of transactions, account balances or 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.

Our audit response related to going concern

As disclosed in section 'Basis of preparation' in note 1, Basis of preparation, to the financial statements, the financial statements have been prepared on a going concern basis. When preparing the financial statements, 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 specific assessment with management exercising professional judgment and maintaining professional skepticism.

We considered whether management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all relevant events or conditions that might cast significant doubt on the company's ability to continue as a going concern.

Based on our procedures performed, we did not identify material uncertainties about 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 might 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 of the financial statements and our audit of 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 following key audit matters are modified, excluded or new compared to the key audit matters included in our last year's auditor's report:

Key audit matters for the audit of the financial statements

Key audit matter 2021	Change	Reason for change
Improper revenue recognition	Changed	We reassessed the risk and concluded the risk of improper revenue recognition is only related to the sale of goods and not related to material projects as was included in prior year.
Valuation of inventories and related obsolescence provision	New	The current macroeconomic developments impacted Signify's inventory levels and valuation thereof.

For the audit of the sustainability information

Key audit matter 2021	Change	Reason for change
Brighter Lives, Better World 2025 program: commitments and criteria	Excluded	This is the second year Signify's Brighter Lives, Better World 2025 program is disclosed in the Sustainability statements. The suitability of the criteria and the sufficiency of the disclosures applied related to this program therefore required significantly less auditor's attention compared to last year.
Inclusion of Cooper Lighting and Klite in sustainability reporting	Excluded	This is the second year the sustainability information of Cooper Lighting and Klite are included in the Sustainability statements. Any risk of misalignment between Signify's sustainability reporting principles and its acquired businesses therefore decreased.
Carbon footprint ("scope 1 & scope 2") and Impact revenues ("Circular revenues, Brighter lives revenues and Climate action revenues")	New	Increased attention of stakeholders and public at large with regards to climate-related matters and ESG.

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 opinion on these matters.

For the audit of the financial statements we identified the following key audit matters.

Risk	Our audit approach	Key observations
Improper revenue recognition		
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, Significant accounting policies, to the Consolidated financial statements. We assessed that improper revenue recognition due to risk of management override relating to 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. • Obtaining an understanding of the design of key controls in the revenue recognition process. • The use of data analytics to audit key risk areas and identify exceptional or unusual revenue streams and patterns. • Detailed testing of significant sales contracts; and • Performing cut-off procedures to ensure revenue is recognized in the correct period.	We concur with the revenue recognized in the financial statements.

Risk	Our audit approach	Key observations
Valuation of uncertain tax positions (assets and liabilities)		
At December 31, 2022, uncertain tax positions are recognized as part of the net deferred tax assets of EUR 393 million and the income tax payable under non-current liabilities of EUR 111 million. Further reference is made in chapter 14, Consolidated financial statements, note 9, Income taxes. The ultimate tax effects of transactions might be uncertain for a considerable period of time, requiring management to estimate the related current and deferred tax treatments, resulting in uncertain tax positions. The accounting for uncertain tax positions is a focus area in our audit as the company has extensive international operations and is required to make judgments and estimates. These judgments and estimates relate to, among others, the tax risks as disclosed in note 9, of the Consolidated financial statements on the valuation of deferred tax assets and liabilities for uncertain tax positions.	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 tax uncertainties as disclosed in note 9, of the Consolidated financial statements. 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, of the Consolidated financial statements, 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 uncertain tax positions (assets and liabilities), and conclude the related disclosures to be sufficient.

<table>
<tr><th>Risk</th><th>Our audit approach</th><th>Key observations</th></tr>
<tr><td colspan="3">Valuation of inventories and related obsolescence provision</td></tr>
<tr><td>Macroeconomic developments posed challenges to Signify. Key challenges include global supply chain disruptions and business climate uncertainties, which led to longer supplier lead times, cost price volatility and increased uncertainty in predicting future sales. These developments impacted Signify's inventory levels and valuation thereof. Further reference is made to note 1, Basis of preparation, of the Consolidated financial statements.

At December 31, 2022, inventories amounted to EUR 1,361 million (2021: EUR 1,410 million). Further reference is made to note 17, Inventories, of the Consolidated financial statements.

The accounting for valuation of inventories and related obsolescence provision is a focus area in our audit as the company is required to make judgments and estimates with regards to the above-mentioned developments. These judgments and estimates relate to:
• Forward-looking estimates on future sales levels.
• Cost revision to determine the allocation of cost to inventories in light of current macroeconomic conditions.</td><td>As a result of the increased focus on valuation of inventories and related obsolescence provision, we have further extended our centralized and local audit procedures on the valuation of inventories resulting in a higher coverage.

Our audit procedures included:
• Obtaining an understanding of the design of key controls in the future sales planning process and the cost revision process.
• Performing analytical procedures including retrospective analysis on the future sales planning.
• Detailed testing of the obsolescence provision calculations and cost revisions.</td><td>We concur with the valuation of inventories and related obsolescence provision recognized in the financial statements.</td></tr>
</table>

For the audit of the sustainability information, we identified the following key audit matters:

Risk	Our audit approach	Key observations
Carbon footprint (“scope 1 & scope 2”) and Impact revenues (“Circular revenues, Brighter lives revenues and Climate action revenues”)		
Climate-related matters, ESG developments and the energy transition are high on the public agenda. Signify’s ambition, commitments, obligations and achievements with regards to these matters are disclosed in its Annual Report and Sustainability statements. Further reference is made in chapter 3, Creating long-term value. In our audit we have considered the risk of non-financial information being presented too optimistically. We specifically considered this to be applicable for Carbon footprint (“scope 1 and scope 2”) and Impact revenues (“Circular revenues, Brighter lives revenues and Climate action revenues”), as these are the most material topics in Signify’s Materiality Matrix, which concerns the outcome of the stakeholder dialogue, and Signify’s own commitments. Further reference is made to Signify’s Brighter Lives, Better World 2025 program in section 3.1, Our strategy.	Our audit procedures included: • Obtain an understanding of the design of key controls in obtaining relevant data for carbon footprint and Impact revenues and consolidating in the sustainability information • Evaluate whether the self-developed reporting criteria for Impact revenues are suitable and consistently applied • Assess whether the disclosure of the reporting criteria related to carbon footprint and Impact revenues are sufficient for proper understanding by the reader • Statistical sampling to obtain suitable audit evidence that the products underlying the Impact revenues are indeed sustainable, based on the relevant criteria • Statistical sampling to obtain suitable audit evidence (external and internal documentation such as invoices for carbon footprint and conversion factors), that reported information reconciles with underlying records of the company • Reconcile the presented carbon footprint and Impact revenues with underlying records • Reconcile the relevant financial information used in calculating Impact revenues with the financial statements • Assess and challenge management that the non-financial information is relevant, suitable, accurate and presented in a balanced matter in the Sustainability statements and in this Annual Report.	We concur with the carbon footprint and Impact revenues as presented in this Annual Report.

Report on other information included in the Annual Report

The Annual Report contains other information in addition to the financial statements, the sustainability statements in chapter 16, Sustainability statements, sections 16.1 to 16.4, and our auditor's report thereon. 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 in section 16.5.
- Corporate Governance report.

Based on the following procedures performed, 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 for the report of the Board of Management and the other information as required by Part 9 of Book 2 of the Dutch Civil Code and as required by sections 2:135b and 2:145, sub-section 2 of the Dutch Civil Code for the remuneration report.

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 subsection 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.

Management is responsible for the preparation of the other information, including the report of the Board of Management 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. 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 2022 in the remuneration report, as prepared by the Remuneration Committee.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by the Supervisory Board as auditor of Signify N.V. (formerly: Philips Lighting N.V.) on July 15, 2016, as of the audit for the year 2016 and have operated as statutory auditor ever 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

Our services are only related to the audit of the financial statements or audit related services.

European Single Electronic Reporting Format (ESEF)

Signify N.V. has prepared the Annual Report in ESEF. The requirements for this are set out in the 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., complies in all material respects with the RTS on ESEF

Management is responsible for preparing the Annual Report, including the financial statements, in accordance with the 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 complies with the RTS on ESEF.

We performed our examination in accordance with Dutch law, including Dutch Standard 3950N 'Assurance-opdrachten inzake het voldoen aan de criteria voor het opstellen van een digitaal verantwoordingsdocument' (assurance engagements relating to compliance with criteria for digital reporting). Our examination included among others:

- obtaining an understanding of Signify N.V.'s financial reporting process, including the preparation of the reporting package
- identifying and assessing the risks that the Annual Report does not comply in all material respects with the RTS on ESEF and designing and performing further assurance procedures responsive to those risks to provide a basis for our opinion, including:
  - obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document 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.

Description of responsibilities

Responsibilities of management and the Supervisory Board

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the GRI Standards and the applied supplemental reporting criteria as disclosed in chapter 16, Sustainability statements, section 16.1, Approach to sustainability reporting, including the identification of the stakeholders and the determination of material matters. The Board of Management is also responsible for selecting and applying the reporting criteria and for determining that these reporting criteria are suitable for the legitimate information needs of stakeholders, taking into account applicable law and regulations related to reporting. The choices made by management with respect to the scope of the sustainability information and the reporting policy are included in section 16.1, Approach to sustainability reporting.

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 is free from material misstatement, whether due to error or fraud.

As part of the preparation of the financial statements, management is responsible for assessing Signify N.V.'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 might cast significant doubt on Signify N.V.'s ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing Signify N.V.'s reporting process.

Our responsibilities

Our objective 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 audits of the financial statements and the sustainability information have been performed with a high, but not absolute, level of assurance, which means we might not detect all material errors and fraud during our audits.

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.

An informative summary of the work performed as the basis of our conclusions is included in the Annex to the combined independent auditor's report.

Amsterdam, the Netherlands
February 28, 2023

Ernst & Young Accountants LLP

A.E. Wijnsma

Annex to the combined independent auditor's report

Work performed

The 'Information in support of our opinions' section in the combined independent auditor's report should be read in conjunction with the information in this annex as the basis for our opinions.

Our audit to obtain reasonable assurance about the financial statements (consolidated and company) included amongs others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- 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; and
- 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 sustainability 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 made 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 if the sustainability information is misleading or unbalanced, or contains material misstatements, whether due to error or fraud. 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. These procedures consisted among 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, taking into account experience from previous visits. The visit to production sites in Mexico is aimed at, on a local level, validating source data and to evaluate the design, implementation and operation of controls and validation procedures.
  - Evaluating whether the assumptions used in the calculation of the societal impact as included in chapter 3, Create long-term value, section 3.3, Our value created, are suitable, which are included in the Methodology for societal impact calculations.
  - Evaluating the suitability of the external sources used in the calculations on which the societal impact as included in section 3.3, Our value created, is based, which are included in the Methodology for societal impact calculations.
  - Obtaining assurance evidence 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; and
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant findings in internal control that we identify during our audits.

In this respect we also 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 combined independent 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 might 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 audit of 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, adjusted indirect costs, 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 might 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.

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	7.8	7.3	5.0	20.1
Digital Products	(3.8)	4.4	0.0	0.7
Conventional Products	(12.6)	4.6	0.0	(7.9)
Signify	**1.2**	**6.0**	**2.4**	**9.5**

Sales growth composition per market in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	3.9	0.4	0.4	4.7
Americas	3.2	12.2	0.0	15.4
Rest of the World	(1.5)	4.1	3.9	6.5
Global businesses	(9.2)	4.5	14.6	9.9
Signify	**1.2**	**6.0**	**2.4**	**9.5**

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

2022	Signify	Digital Solutions	Digital Products	Conventional Products	Signify Other
Adjusted EBITA	762	424	297	116	(75)
Restructuring	(64)	(15)	(11)	(34)	(4)
Acquisition-related charges	(27)	(27)	–	–	–
Incidental items	173	(8)	(14)	(22)	217
EBITA	**844**	**374**	**272**	**60**	**138**
Amortization [1]	(126)	(118)	(7)	–	(1)
Income from operations (EBIT) [2]	**718**	**256**	**265**	**60**	**137**
2021					
Adjusted EBITA	795	397	339	161	(102)
Restructuring	(86)	(19)	(4)	(5)	(58)
Acquisition-related charges	(50)	(49)	(1)	–	–
Incidental items	(22)	(11)	(10)	2	(4)
EBITA	**636**	**318**	**323**	**158**	**(164)**
Amortization [1]	(122)	(114)	(7)	–	(1)
Income from operations (EBIT) [2]	**514**	**205**	**316**	**158**	**(165)**

[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, in chapter 14, Consolidated financial statements.

Adjusted gross margin and Adjusted indirect costs: adjusted SG&A costs and adjusted R&D costs

The company discloses adjusted gross margin, adjusted SG&A costs and adjusted R&D costs as a supplemental non-IFRS financial measure. The company believes they are a meaningful measure to evaluate the company's gross margin, adjusted SG&A costs and adjusted R&D costs on a comparable basis over time. The measures factor out restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales, SG&A and R&D costs which are not directly related to the operational performance of the company. Adjusted gross margin, adjusted SG&A and Adjusted R&D 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

2022	Reported	Restructuring [2]	Acquisition-related charges	Incidental items [1]	Adjusted
Sales	7,514	–	–	–	7,514
Cost of sales	(4,781)	43	6	25	(4,708)
Gross margin	**2,732**	**43**	**6**	**25**	**2,806**
Selling, general and administrative expenses	(1,927)	21	18	11	(1,877)
Research and development expenses	(295)	–	–	–	(294)
Indirect costs	**(2,222)**	**21**	**19**	**11**	**(2,171)**
Impairment of goodwill	–	–	–	–	–
Other business income	227	–	(1)	(218)	8
Other business expenses	(19)	–	3	10	(6)
Income from operations	**718**	**64**	**27**	**(173)**	**636**
Amortization	(126)	–	–	–	(126)
Income from operations excluding amortization (EBITA)	**844**	**64**	**27**	**(173)**	**762**
2021					
Sales	6,860	–	–	–	6,860
Cost of sales	(4,189)	19	8	4	(4,157)
Gross margin	**2,671**	**19**	**8**	**4**	**2,702**
Selling, general and administrative expenses	(1,882)	66	43	25	(1,748)
Research and development expenses	(286)	1	–	–	(284)
Indirect costs	**(2,168)**	**67**	**44**	**25**	**(2,032)**
Impairment of goodwill	–	–	–	–	–
Other business income	19	–	(2)	(11)	7
Other business expenses	(8)	–	–	4	(5)
Income from operations	**514**	**86**	**50**	**22**	**673**
Amortization [1]	(122)	–	–	–	(122)
Income from operations excluding amortization (EBITA)	**636**	**86**	**50**	**22**	**795**

[1] Incidental items are non-recurring by nature and relate to impairment and other non-cash charges related to operations in Russia and Ukraine, separation, transformation, net real estate gains, legal cases, environmental provision for inactive sites and discounting effect of long-term provisions.

[2] Restructuring cost were EUR 64 million for the year ended December 31, 2022. These mainly consisted of EUR 27 million of employee termination benefits, EUR 12 million of impairment of property, plant and equipment, and EUR 16 million of inventory write-downs related to restructuring programs.

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

	2021	2022
Cash flows from operating activities	704	376
Cash flows from investing activities	(91)	(256)
Cash flows before financing activities	**613**	**119**
Cash flows from operating activities	704	376
Net capital expenditures:		
• Additions of intangible assets	(34)	(62)
• Capital expenditures on property, plant and equipment	(84)	(70)
• Proceeds from disposal of property, plant and equipment	27	201
Free cash flows	**614**	**445**

Free cash flows in millions of EUR

	2021	2022
Digital Solutions [1]	364	321
Digital Products [1]	383	170
Conventional Products [1]	136	56
Other	(270)	(101)
Signify total	**614**	**445**

[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

	2021	2022
Short-term debt	77	83
Long-term debt	1,931	1,950
Gross debt	**2,007**	**2,033**
Cash and cash equivalents	(851)	(677)
Net debt	**1,156**	**1,356**
Shareholders' equity	2,459	2,920
Non-controlling interests	138	145
Total equity	**2,597**	**3,065**
Net debt and total equity	3,753	4,421
Net debt divided by net debt and total equity (in %)	31%	31%
Total equity divided by net debt and total equity (in %)	69%	69%

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

	2021	2022
Working capital	**250**	**564**
Eliminate liabilities comprised in WoCa:		
• Trade and other payables	2,334	1,859
• Derivative financial liabilities	44	42
• Other current liabilities	213	194
Include assets not comprised in WoCa:		
• Non-current assets	4,536	4,895
• Income tax receivable	24	56
• Cash and cash equivalents	851	677
• Assets classified as held for sale	3	1
Total assets	**8,256**	**8,286**

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.

Brighter lives revenues
Revenues measured as a percentage of total revenues coming from all products, systems and services contributing to Food availability, Safety & security or Health & well-being.

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 carbon footprint over its value chain (scope 1, 2 and 3), which include emissions from industrial sites, non-industrial sites, business travel, logistics, purchased goods and services, capital goods, fuel- and energy-related activities, employee commuting, waste generated in operations, end of life treatment of sold products, and use of sold products. Our carbon neutrality commitment covers Signify operations, meaning scope 1, 2 and part of scope 3 for Business travel and logistics. Signify net operational carbon footprint = Signify gross operational carbon footprint - Amount of carbon offset through our carbon offsetting programs.

Circular revenues
Revenues measured as a percentage of total revenues coming from products, systems and services designed to preserve value and avoid waste categorized as Serviceable luminaires (incl. 3D printing), Circular components, Intelligent systems or Circular services.

Climate action revenues
Revenues measured as a percentage of total revenues coming from energy-efficient and solar products, systems and services that helps to save energy and reduce carbon footprint with the following criteria: Products which meet strict luminous efficacy thresholds (between 80 and 110 lm/W depending on lumen output) to reduce energy consumption; Systems and Managed Services that enable further energy savings (up to 80% total) by optimizing the lighting use; Solar solutions as these are powered by renewable energy; or Electronic control gears (components) which meets the Single Lighting Regulation threshold.

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).

Custom duties
Tax imposed on imports and exports of goods charged to Signify's Consolidated Statement of Income. Typically, these are reflected in customs declarations and tend to be payable, and are paid, regularly (often monthly) throughout the year, shortly after the submission of the declaration. These form part of operating costs.

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 Divisions, 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 might 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.

Income tax paid
Income tax paid by Signify in tax jurisdictions, based on income on a cash basis.

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 that 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 a 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 as 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.

On track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5°C scenario
In our Brighter Lives, Better World 2025 sustainability program, we commit to doubling the pace of the Paris Agreement's 1.5°C scenario to reduce emissions over our entire value chain by the end of 2025, comparing to the 2019 baseline. This means we aim to achieve the emission reduction goals laid out in the Paris Agreement's 1.5°C scenario for 2031 by 2025, six years early. With this scenario, the Paris Agreement suggests that companies must reduce their emissions by 4.2% year on year. In other words, by the end of 2025, we will reduce our scopes 1, 2, and 3 emissions by 40% compared to our baseline year 2019. To track progress, we are comparing Signify actual and projected carbon footprint every year from 2021 to 2025. Based on the 80% coverage of all Signify data from sold portfolio, we have estimated our 2022 value chain CO_2. By extrapolating the remaining 20% within each product family, we calculated our 100% value chain CO_2 and concluded that we are 4% ahead on our projected carbon footprint for 2022. Comparing to the 2019 baseline, we have already achieved 30% emissions reduction across our value chain (vs. 40% by the end of 2025). With an estimated a 5% error rate for 2022 (10% in 2021), we have achieved between 27% and 34% emissions reduction across the value chain (vs. 40% by the end of 2025), which means that we are on track towards our 2025 targets.

Other taxes
Other taxes comprise environmental taxes, property taxes and other contributions to governments in the form of taxes. This also includes dividend withholding tax payments on behalf of our shareholders.

Payroll taxes
This comprises all payroll taxes including social security contributions, both in Signify's capacity of employer, which form part of operating costs, and in the form of remittance to government on behalf of employees. Typically, these taxes are reflected in payroll tax returns made to governments and tend to be payable, and are paid, regularly (often monthly) throughout the year, shortly after the submission of the return.

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 that have been approved by the company, and which generally involve the realignment of certain parts of the organization. Restructuring costs include costs for employee termination benefits for affected employees and other costs directly attributable to the restructuring, such as impairment of assets and inventories.

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”) 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 suppliers in risk countries with an audit score of at least 90 out of 100 points.

Sustainable innovation
All research and 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 one or more of the sustainable focal areas: Energy & solar, Circularity, Packaging, Substances, Weight & materials, Safety & security, Health & well-being or Food availability. Sustainable innovation spend is the total spending of all R&D projects contributing to sustainable innovation.

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.

VAT
Value-added tax (VAT) including similar indirect taxes such as Goods and Service tax (GST) and Sales tax. The VAT contributions in a jurisdiction is the balance between output VAT and input VAT. These taxes form part of a VAT tax return made to the government and tend to become payable, and are paid, regularly (often quarterly) throughout the year shortly after submission of the VAT tax returns.

Weighted average statutory income tax rate
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.

Women in leadership
Percentage of women in relation to the total population in compensation grades H22 and above. It includes employees with or without a defined end date, international assignees and members of the Board of Management.

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 (excluding dividend related payables).

Zero waste to landfill
It 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. To achieve “zero (manufacturing) waste to landfill”, the amount of non-hazardous manufacturing waste being disposed directly to landfill should be <1% of total waste.

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: adverse economic and political developments, in particular the impacts of the Russia-Ukraine war, the energy crisis in Europe, the impacts of COVID-19, supply chain constraints, component shortages, cost inflation, rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, impact of acquisitions and other transactions, reputational and adverse effects on business due to activities in environment, health & safety, compliance risks, ability to attract and retain talented personnel, adverse currency effects, pension liabilities, and exposure to international tax laws. Please see chapter 12, Risk factors and risk management, for discussion of material risks, uncertainties and other important factors which might 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 might 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's own assessment of its sales and markets. Rankings are based on sales unless otherwise stated.

Non-IFRS financial measures

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, Adjusted EBITA, free cash flow, and other related ratios, that 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 might 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.

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, that we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments that are inherently uncertain and might 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, 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.

Signify N.V.

High Tech Campus 48

5656 AE Eindhoven

The Netherlands

E-mail: IR@signify.com

www.signify.com

Dutch Chamber of Commerce

registration no. 65220692

VAT NL8560.25.823.B.01