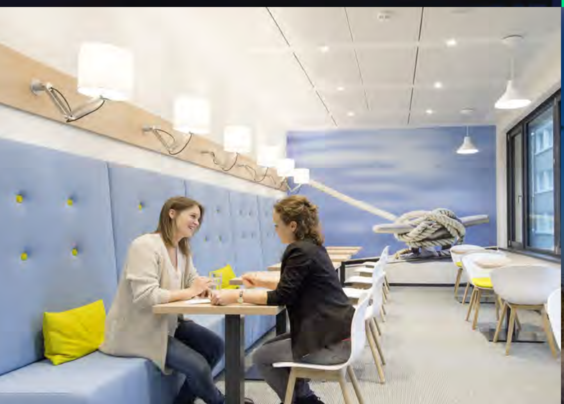
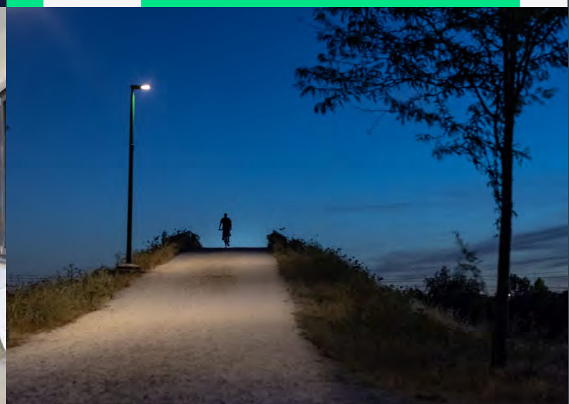




Annual Report 2019

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

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

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

Our values

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

Customer first

“Signify has worldwide experience in growing high-wire cucumbers under LED lighting, so they can provide us with good advice and support from their plant specialists.”
Vincent Olivon, co-owner of Jardins Réunis, France

Greater together

Our agreement with Signify marks the beginning of a collaboration between two industry leaders, bringing together the worlds of telecommunications and lighting.”
Gerhard Mack, Head of Technology at Vodafone Deutschland

Game changer

“Signify is helping the industry by promoting recycling as a key element of the smart home formula, [...] this type of initiative shows that it will become more important for big tech players to lead the way in producing eco-friendly products.”
Ovum, Industry analysts

Passion for results

“What’s exciting for me is the opportunity for growth. As the company is evolving, I feel even more proud that it’s not just about my personal impact but the impact the company can make.”
Jen Bihlmier, Demand Planning Manager, Signify US

Always act with integrity

“Integrity means that whatever we do, we do it correctly not only once but every time – and we adhere to it also in the most difficult situations we face.”
Asesh Kumar Dasgupta, Sales Manager for Professional Trade, Signify India

Table of contents

We are Signify

1	Performance highlights	5
2	CEO message	7
3	Creating value	10
4	Corporate performance	23
5	Three-year overview	31

Governance

6	Board of Management	33
7	Supervisory Board	34
8	Supervisory Board report	36
9	Remuneration report	42
10	Corporate governance	54
11	Investor relations	60
12	Risk factors and risk management	63
13	Statement of the Board of Management	71

Corporate statements

14	Consolidated financial statements	74
15	Signify N.V. financial statements	125
16	Sustainability statements	132
17	Combined independent auditor's report	157
18	Reconciliation of non-IFRS financial measures	169
19	Definitions and abbreviations	174
20	Forward-looking statements and other information	178

In 2019, Signify leveraged 128 years of leadership in lighting to create dynamic, innovative and human-centric projects. In homes, offices, shops, sports stadiums, cities, greenhouses and factories – as well as through the Signify Foundation – we're unlocking the extraordinary potential of light for brighter lives and a better world.

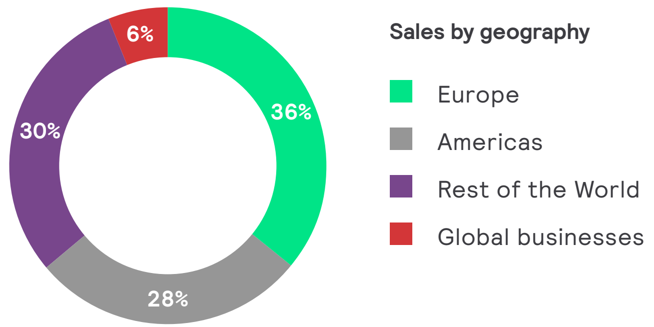
Forward-looking statements and risks & uncertainties
Please refer to chapter 20, Forward-looking statements and other information, of this Annual Report, for more information about forward looking statements, market and industry information, fair value information, IFRS basis of presentation, use of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

We are Signify

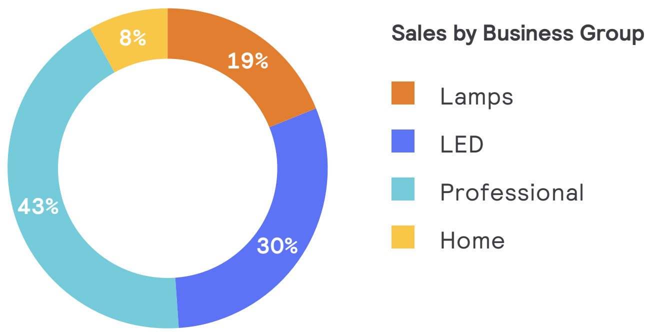
I Performance highlights

I.I Financial performance

	2018	2019
Comparable sales growth	(4.4)%	(4.6)%
LED-based sales	71%	78%
Adjusted EBITA margin	10.1%	10.4%
Net income	261	267
Free cash flow	306	529



Business Groups	LED	Professional	Home	Lamps
Sales	1,891	2,649	521	1,159
Nominal sales growth	4.4%	0.5%	11.6%	(18.8)%
Comparable sales growth	(1.1)%	(1.7)%	11.3%	(20.5)%
EBITA margin	11.5%	8.4%	1.0%	14.5%
Adjusted EBITA margin	12.7%	10.0%	3.8%	19.2%



This chapter contains certain non-IFRS financial measures and ratios, such as comparable sales growth, EBITA, Adjusted EBITA and free cash flow, and related ratios, which are not recognized measures of financial performance or liquidity under IFRS. These measures are further discussed in chapter 4, Corporate performance, of this Annual Report. For a reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures, see chapter 18, Reconciliation of non-IFRS financial measures, of this Annual Report.

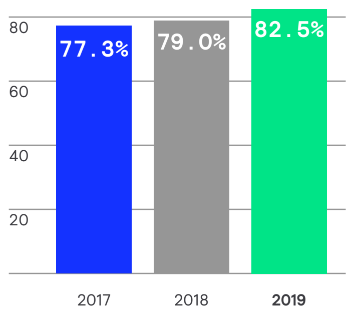
1.2 Sustainability performance

Brighter Lives highlights	2018	2019
Employees (full-time equivalent)	29,237	32,005
Employee Net Promoter Score	13	18
Female executives (% of total)	17%	17%
Safety at work (TRC rate)	0.29	0.32
Supplier sustainability performance	93%	99%

Better World highlights	2018	2019
Sustainable revenues	79.0%	82.5%
Carbon footprint (gross, kilotonnes)	401	363
Carbon footprint (net, kilotonnes)	146	64
Renewable electricity	89%	94%
Total waste to landfill (kilotonnes)	2.4	0.7

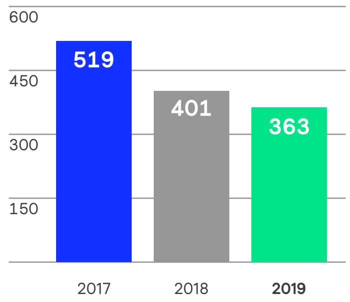
Sustainable revenues

% of total revenues



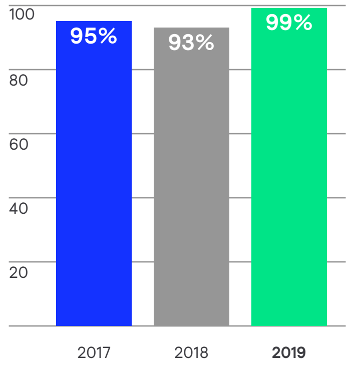
Operational carbon footprint (gross)

Kilotonnes CO_2 equivalent



Supplier sustainability performance

Performance rate



2 CEO message

2019 – A year of strengthening our industry leadership amid economic challenges

"I'm very proud of our employees and the progress we made in 2019 in improving our business, in developing new innovations and in making our business even more sustainable. We further increased our leadership in LED lighting, made some key moves in terms of acquisitions, strengthened the offerings of our growth platforms and boosted our sustainability profile, all while lowering our costs." – Eric Rondolat, Signify CEO

2019 was a year of rapid change and global uncertainty, due to political volatility, market instability and technological advancements. Against this backdrop we adapted effectively, making necessary adjustments, seizing ambitious inorganic growth opportunities and defining new possibilities for lighting through our technology.

A spirit of change and development runs through our organization, powering our industry leadership and resilience. And with programs such as Horizon, we're speeding up our transformation, bringing us closer to where we need to be to achieve our business ambition.

Thanks to our continued dedication to simplification and cost reduction measures, our operational profitability continues to improve, and free cash flow is strong.

Exciting developments in our growth platforms - connected systems, IoT services, horticulture, solar, and LiFi - continue to show that we're leading the industry toward a new era. All of this, amid some challenging market conditions, increase my confidence that we're on the right track.

We announced several acquisitions this year: Klite in China for private and branded LED labels; WiZ in Hong Kong for WiFi-based connected lighting; US-based Once Inc. and iLOX in Germany for animal-centric lighting; and Cooper Lighting Solutions in the US for professional lighting in North America. These strategically sound moves contribute to differentiating us structurally, while enhancing our ability to serve our customers.

Strategic focus

We continue to execute against our strategic priorities, transforming our industry and building on our heritage.

- Our LED sales increased by 10% to 78% of our total sales at the end of the year
- We installed 12 million connected light points, bringing our total to 56 million globally
- Our continuous innovation and responsiveness to customer needs are demonstrated by the launch of BrightSites smart poles and the Philips Hue HDMI SyncBox, as well as the continued enhancements to our LiFi offering (to name but a few)
- We again increased our market share in conventional lamps, sustaining a high level of profitability, benefiting from our 'last company standing' strategy

"Horizon aims to speed up our execution, improve our top line, profitability and cash, and boost our organizational health"

- Our transformation program Horizon aims to speed up our execution, improve our top line, profitability and cash, and boost our organizational health

Our acquisitions

We've taken several steps this year which illustrate our focus on strategic growth areas and attractive markets. We expanded our connected lighting offering through the acquisition of WiZ Connected, allowing us to extend our leadership in the smart home by stepping into the WiFi-based lighting market. This perfectly complements Signify's existing offers and will help us to continue to deliver an experience rich in light and intuitive in use for our customers.

As part of our commitment to agricultural lighting, we increased our exposure to the promising market of animal-centric lighting by acquiring experts Once Inc. and iLOX. These tailor-made lighting systems improve the quality of life for livestock, which leads to healthier animals and enhanced production for the farmer.

By acquiring a majority stake in Klite, we secured an independent supply chain in China and strengthened our position in the fast-growing private and branded label segments. This move strengthens our position in the supply chain of LED lamps and luminaires, and the enhanced distribution scale will help us deliver cost-efficient innovations to customers faster, including connected lighting offerings.

Finally, with our intention to acquire Cooper Lighting Solutions, we expect to strengthen our position in the attractive North American lighting market, with increased innovation power and more competitive offerings. At a stroke, this major acquisition will improve our business mix, with Professional revenues increasing from 42% to 53% of total sales, based on 2018 figures.

Our financial performance

In 2019 we increased our profitability for the sixth consecutive year, resulting in further improvement to our adjusted EBITA margin, as well as the highest level of free cash flow since our IPO. The profit and cash contribution of the growing profit engines increased in 2019 and now stands at more than twice the contribution of Lamps, as we continue to shift from conventional lamps to lighting products, systems and services. This strong performance has been achieved in a challenging macro-environment; lower activity in several markets - including India, Europe and the US.

These positive indicators show the success of our strategy, even in the face of continued challenging market conditions. I'm confident that our relentless focus on our growing profit engines and new growth platforms will further strengthen our market leadership and progressively improve our growth profile.

Our commitment to innovation

In 2019, we invested 4.5% of our sales in R&D, the cornerstone of our business. As part of our commitment to unlocking the extraordinary potential of light, we launched Trulifi, our own high-speed LiFi technology. This enables highly reliable, secure and fast wireless communication that leverages existing and future lighting infrastructure. Together with Vodafone we're planning to link the best of 5G and LiFi technology, extending the benefits of these technologies from outdoors to indoors, while we also partner with Latécoère to bring LiFi connectivity to commercial airplanes, and with Ellamp to enable bus and train passengers to reap the benefits of LiFi to the fullest.

As part of our commitment to sustainable innovation, we launched a 3D printing service that enables customers to custom-design or tailor their luminaires. We then 3D print and deliver their luminaires, saving on time, energy, waste and packaging. All these luminaires are recyclable, as part of our move to a circular economy.

Additionally, we're expanding growth areas like aquacultural, horticultural and solar lighting with best-in-class products and systems.

Our commitment to sustainability

Thanks to the efforts and collaborations of our teams around the world, we're on track to achieve our Brighter Lives, Better World commitments and are taking urgent action to contribute to the United Nations Sustainable Development Goals. At the end of 2019, 15 of our 19 markets were carbon neutral and we're proud to already generate more than 80% of our revenues from sustainable products and systems. For the third year in a row, we've been recognized as the Industry Leader in the Electrical Components and Equipment category of the Dow Jones Sustainability Index. And we continue to push for more ambitious action. At Climate Week 2019, I called upon companies and countries to join the 3%

Club, a group of 15 countries and 10 companies who are driving an increase of 3% energy efficiency each year using existing, cost-effective technologies and policy instruments.

Our commitment to our customers

Customer satisfaction is one of our four company values, and at the core of our Road to Excellence, a company-wide journey to streamline our business processes and allow for better cooperation. This will ensure faster and more accurate reaction to customer needs and already led to a 10% increase in customer NPS over the year. This resulted in a customer NPS of 35 at the end of Q4.

The use of digital tools will allow us to anticipate future needs, giving us a competitive advantage by adjusting our business processes. This focus on prevention was the key success factor in 2019 and a major part of our Quality Culture. Additionally, we have worked on the further maturation of the organization by driving the European Foundation for Quality Management excellence model into our DNA.

Our commitment to people development

In 2019 we rolled out Learning@Signify as our new global learning platform, as part of our commitment to foster a learning culture and help our employees skill up and reskill. By year-end 59% of our employees were active users. We've also strengthened detailed succession plans to help develop and promote people internally. In 2019, 70% of our leadership positions were staffed internally, demonstrating success in our efforts to build a strong internal succession pipeline. We continued with our quarterly employee survey to measure employee engagement. Our employee NPS has improved, from 13 in 2018 to 18 in 2019, with participation levels of 83% in Q4 2019.

Our Board of Management

Stéphane Rougeot, who joined Signify in September 2016, has decided to leave the company for personal reasons. I would like to personally thank Stéphane for having been such a strong partner and for being instrumental in driving many of the improvements at Signify over the past 3.5 years. I'm very pleased that René van Schooten, who knows Signify very well and served in this capacity during the IPO, takes over the CFO role on an ad interim basis. I am also happy that Maria Letizia Mariani has been proposed as a member of the Board of Management where she will bring extensive business and commercial experience.

Our thanks

On behalf of our Board of Management and our leadership team I extend my sincere gratitude to our employees, who show unwavering dedication to transforming our business and unlocking the extraordinary potential of light for brighter lives and a better world.

I also thank our customers for their trust and loyalty, which motivates us to do our best work every day. And finally, I thank our shareholders for their confidence in us and in our strategy.

We're currently leading the next wave of lighting transformation, turning connected light sources into data collection points, and continuing to shape the future of our industry.

Eric Rondolat
CEO Signify

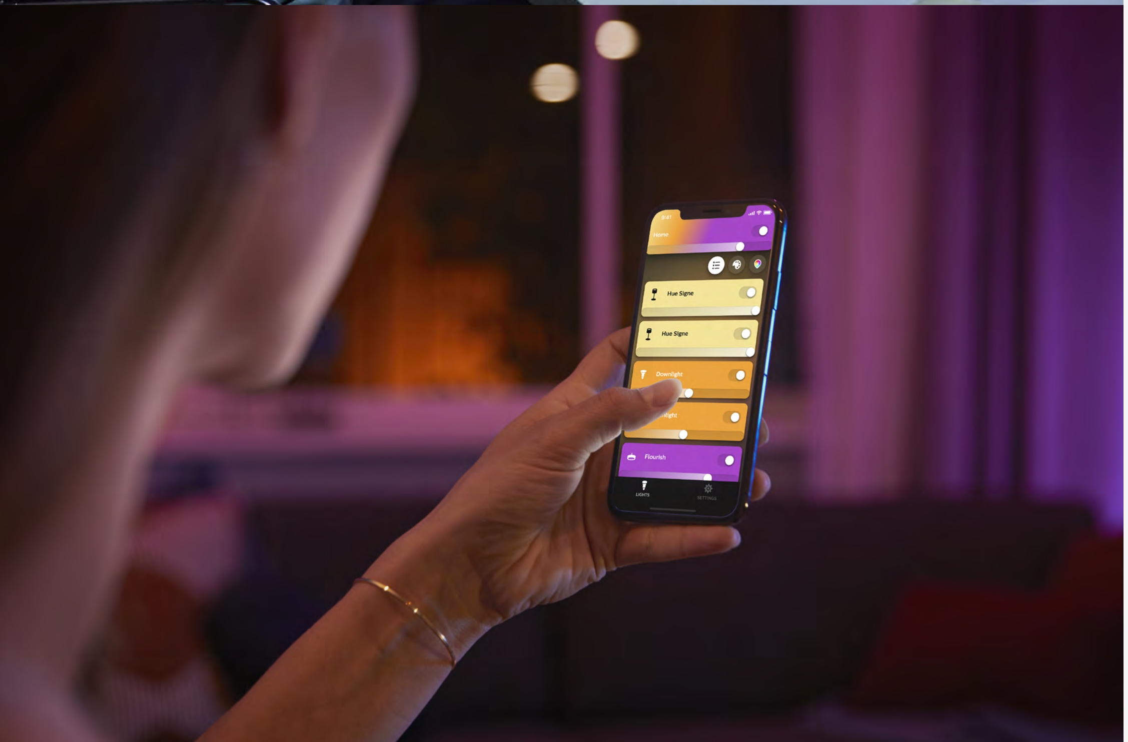
3 Creating value

3.1 Our strategic focus

Signify, headquartered in Eindhoven, the Netherlands, is the world market leader with recognized expertise in the development, manufacture and sale of innovative, energy-efficient lighting systems and services. We have pioneered many key breakthroughs in lighting over the past 128 years and have been a driving force behind several leading technological innovations. We employ 32,000 people in 74 countries.

We have been in a leading position as the lighting industry transitions from conventional to LED lighting, and we're now leading the next transition, as the industry moves toward connected lighting. Our track record in innovation is strong and we invest heavily in R&D to stay at the forefront of technological developments. Our size and position across the value chain provide significant economies of scale, allowing us to leverage the development of innovative technologies, products and services.

Strategic priorities 2019	Proof points 2019
Create segmented and differentiated LED offers to increase our share – Our global reach and client proximity allow us to deliver a product portfolio that addresses local market needs with both high-volume products and differentiating propositions, addressing customer needs across all product segments.	**LED lighting share increased from 71% to 78% of total sales**
Drive systems growth to increase our connected installed base – Connected lighting is becoming increasingly important in the general and specialty lighting markets. We're actively shaping the industry migration to lighting systems in both the professional and consumer markets.	**Installed light points using our connected lighting products increased by 27% to 56 million connected light points**
Develop recurring data-enabled services revenues – We're realizing additional revenues from our installed base by offering new, value-added services. In doing so, we make people's lives safer, more productive, and more comfortable; businesses and cities more efficient and liveable; and the world more sustainable.	**Bolstered Interact platform with further enhancements of Interact Indoor Navigation and launch of Interact Smart Workspaces and Interact Asset Tracking**
Invest in growth, organically and inorganically – We invest to help define what's next in lighting and remain ahead of the industry. From 3D luminaires to LiFi, we're redefining the capabilities of lighting to help our customers solve more complex problems. Our investments can also include the acquisition of (stakes in a) business complementing our portfolio.	**4.5% of sales invested in R&D** **Acquisitions of Cooper Lighting Solutions and Klite will strengthen our position in North America and in the supply chain of LED lamps and luminaires**
Grow a leading market share in conventional – While the overall conventional market continues to decline, we expect to decrease less than the market, capture market share and optimize our free cash flow. Our manufacturing footprint rationalization and product portfolio simplification brings additional efficiency gains and cost reductions.	**Continued strong free cash flow of Lamps at 19% of sales**
Digitalize and improve our commercial and supply chain processes for our customers – We continuously strengthen our commercial excellence capabilities across all channels. By investing in digitalization, we aim to further improve our longstanding local customer relations and global distribution network.	**Our average DRM (Delivery Reliability Metric) improved by 160 basis points**
Achieve world-class operational excellence – We aim to leverage operational excellence capabilities across the organization by implementing programs that focus on minimizing waste, reducing defects and increasing the efficiency of our entire value chain while reducing our fixed costs.	**Adjusted EBITA margin improved by 30 basis points to 10.4%**



The lighting company for the Internet of Things

Our position as an industry leader in connected lighting for the Home and Professional segments makes Signify the lighting company for the Internet of Things (IoT). By extending our industry leadership into the IoT, we're unlocking additional value by offering our customers new apps and services.

Today's lighting technology can do much more than simply provide illumination. At Signify, we're turning light sources into data collection points, connecting devices, places and people through light. In doing so, we make people safer, more productive, and comfortable; businesses and cities more energy efficient and livable; and the world more sustainable.

Add in a networked layer of intelligence, in both professional spaces and at home, and it's clear that we're harnessing data to unlock new applications and create additional value from light and light sources.

In 2019 we: made agreements to put Trulifi, our own highly stable and energy-efficient alternative to WiFi, in planes and on buses; launched Brightsites by Signify, smart utility poles that accommodate a wide variety of IoT sensors and cameras, offering environmental monitoring and enhanced security options such as incident detection; and we hosted a Hackathon to leverage the rich set of Interact APIs to facilitate innovative, scalable, and integrated implementations into the Interact IoT platform.

These are just a selection of the projects we're undertaking and products we're taking to market in order to create new value for our customers. Innovations like these are possible because we bring over a century of lighting industry knowledge to visionary R&D.

Turning Atea's office in Stavanger Norway into a living lab

The new Atea office building in Stavanger, Norway, has been conceived from the ground up as a living lab – a test bed and showcase for connected and integrated systems.

Customer challenge
Atea, the leader in IT infrastructure in Norway and the Baltics, wanted to move into smart building solutions. To do this, they decided to create a living lab, where employees test products and services by using them themselves. This would unlock new insights into the challenges their customers face, and ways to test solutions and achieve operational excellence.

Solution
By partnering with Signify and networking giant Cisco, Atea was able to design and engineer a truly integrated smart building from the bottom up. New technologies include a personal control app for the lighting system, a highly accurate indoor location system, multisensors, and even LiFi for light-based, high-bandwidth wireless communications. As a smart office solution showcase, the new building allows the company to demonstrate what they can do with a converged infrastructure.

Atea regularly welcomes potential customers to their offices in Stavanger to see for themselves how smart buildings can be configured, maintained and managed.
More people visited the new building in six months, in fact, than had visited the old Atea building in over ten years.

Because the building houses Atea's Stavanger workforce, the company also makes employee comfort and productivity as high priority as showcasing multiple smart solutions and their integration.

Interact Office
The Interact Office system creates a platform for distributing intelligence throughout the building's illuminated spaces. It's embedded into the office environment, supporting both employee well-being and operational efficiency, so that all building systems work together seamlessly. The converged IT infrastructure integrates systems, collecting rich, actionable data for monitoring, modeling, and AI applications.

> "By being in a living lab, we're constantly evolving, we're constantly trying and testing our own products and our partners' products by using them ourselves."
>
> Espen Riska, Smart buildings director at Atea Stavanger

ATEA office – Stavanger, Norway

Splashy connected lighting system at Shaoxing Shangyu Sports Center

To showcase two big sporting events, Shaoxing Shangyu Sports Center was outfitted with a connected lighting system capable of wowing the in-house audience and those watching on TV at home – and providing athletes with the best possible conditions for competition.

Customer Challenge
Shaoxing Shangyu Sports Center, the largest sports facility construction project in the history of Shangyu city, China, wanted an interconnected lighting system to provide a better viewing experience during two major sporting events. Due to time constraints, it needed to be installed quickly and easy to operate.

Solution
Signify provided professional lighting systems that bathed the swimming pool in the best quality light. 88 sets of Philips SportsStar and 622 LED flood lights tailored for sports lighting – and meeting the broadcast requirements of various international events – were installed to provide maximum coverage of the space.

Managed by the Interact Sports connected lighting system, the operator can control the lighting of the venue through an intuitive interface and application suite.
The adaptable lighting system can be used for major international competitions broadcast on TV, professional and amateur tournaments, as well as training and entertainment activities. Modes can be navigated with a single click; combining high-quality venue flood lighting and dynamic light performances which can be synced to music to create experience enhancing light shows.

Now, competitors, fans and TV viewers can all better enjoy their experience. The Interact Sports connected lighting systems also helps operators optimize usage and create an impressive lighting experience.

Interact Sports
The Interact Sports connected lighting system can monitor, manage and control all lighting assets in real time. The tailor-made software application brings together connected lighting systems – and the data those systems collect – with other IoT solutions. Through real-time visualization of data, it improves operational and maintenance efficiency, while offering new possibilities for lighting and fan experiences.

> **“The responsiveness of the management interface has allowed us to create a truly dynamic atmosphere, for both spectators and competitors.”**
>
> **Dawei Xu, Engineering Manager of Shangyu Stadium**

Sports Center – Shangyu, China

Better shopping experience with 'Find my product' app

With indoor navigation integrated into the 'Find my product' app, Albert Heijn in Hoofddorp, the Netherlands can now efficiently help shoppers find everything they need, enhancing the shopping experience and avoiding lost sales.

Customer challenge
Albert Heijn is committed to making grocery shopping and cooking easier for its customers. This can be a challenge if customers can't find all the products on their list. Independent research* conducted among 1,000 Dutch shoppers found that 14% occasionally can't find products when shopping. This relates to many products, not just ones they shop for occasionally.

As a result, 44% of those shoppers leave the store having bought at least one less item than they planned. Albert Heijn needed a way to help shoppers to find every product quickly and easily.

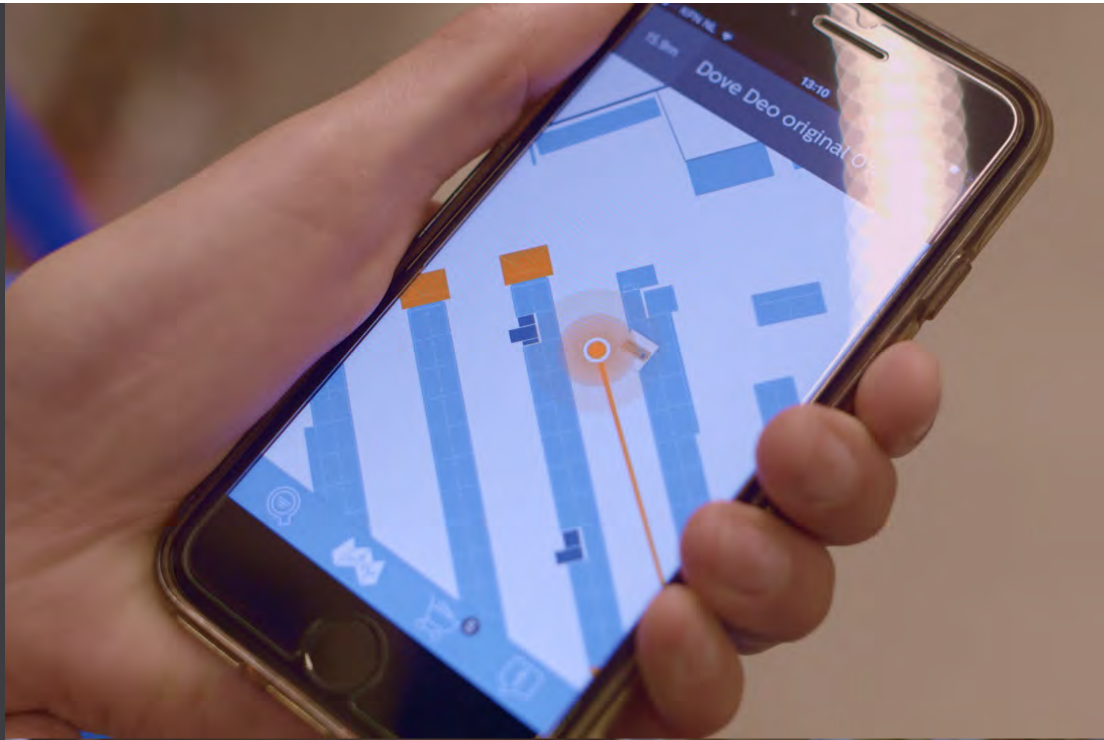
Solution
Our solution connects the Interact Retail Indoor navigation system to Albert Heijn's product database in one app, making it possible to locate every item sold in the store to within 30 cm.

Each light point in the store sends a unique code that's captured by the front camera of a smart device, providing the location of the shopper and combining that with the location of the product. Customers can then follow dynamic directions on a digital map that takes them to the product using the shortest route. The system also provides retailers with location analytics such as dwell time, footfall and density helping them to improve business and marketing initiatives.

Interact – Shopping made easy
The 'Find my product' app harnesses the power of connected lighting in the store by using the Interact Retail navigation system to create a dynamic locations system. Research** shows that users appreciate the speed, convenience and independence of being able to find a product without searching or asking, with 84% giving it a 'thumbs up', showing a strong appreciation for its benefits.

> "This technology truly offers infinite possibilities."
>
> Steven de Kroes, Format developer at Albert Heijn

* CG Research commissioned by Signify, October 2018
** Research by PAM research & advice, commissioned by Signify, October 2018




Albert Heijn supermarket – Hoofddorp, Netherlands

3.2 Brighter Lives, Better World

Our world is increasingly feeling the pressures of population growth, resource scarcity and climate change. At the same time, our stakeholders pay increasing attention to the circular economy, food availability and health & well-being. As a purpose driven organization, we understand the importance of taking urgent action and this is why we align our business strategies with the UN Sustainable Development Goals (UN SDGs).

As part of our Brighter Lives, Better World program, we have defined commitments for 2020 which are aligned with the UN SDGs: 80% Sustainable revenues; Deliver >2 billion LED lamps and luminaires (cumulative from 2015); 100% carbon neutral and 100% renewable electricity; Zero waste to landfill; Safe and healthy workplace with a TRC of < 0.35; Sustainable supply chain with a 90% performance rate. Furthermore, we have committed to reaching 5 million lives with renewably powered lighting and supporting 10,000 people with technical and business skills development (cumulative from 2017). By the end of 2019, we were well on track achieving all of these commitments. Additionally, and for the third consecutive year, Signify achieved the status of Industry Leader in the Electrical Components and Equipment category of the 2019 Dow Jones Sustainability Index (DJSI), with top scores (100/100) obtained in Materiality, Innovation Management, Environmental Reporting, Operational Eco-Efficiency and Labor Practices Indicators.

We contribute directly or indirectly to all SDGs, but there are six SDGs where we can make the biggest impact through our business activities and sustainability programs: SDGs 3, 7, 8, 11, 12 and 13. Partnerships play a strong role in helping us to accelerate our progress: these include GOGLA, South Pole, RE100, the Carbon Disclosure Project, The Climate Group, the World Green Building Council, the Responsible Business Alliance, the UN Environment Program and the World Economic Forum.

	Our contribution	2020 Commitments	2019 Progress
3 GOOD HEALTH AND WELL-BEING	We increase **food availability** and quality through horticulture and animal lighting and increase **wellbeing** through human centric lighting	• 80% Sustainable revenues • 5 million lives lit	• 82.5% Sustainable revenues • +3.8 million lives lit
7 AFFORDABLE AND CLEAN ENERGY	We deliver cleaner solutions through **energy efficient** and solar lighting and are committed to 100% renewable electricity in our operations	• 80% Sustainable revenues • 2 billion LED lamps & luminaires delivered • 100% Renewable electricity	• 82.5% Sustainable revenues • 2.3 billion LED lamps & luminaires delivered • 94% Renewable electricity
8 DECENT WORK AND ECONOMIC GROWTH	We foster decent work and economic growth by improving the **safety & wellbeing** of employees and suppliers and training lighting entrepreneurs	• TRC rate of < 0.35 • Sustainability supplier performance rate of 90% • 10,000 people with technical and business skills	• 0.32 TRC rate • 99% supplier performance rate • +8,000 people supported with technical and business skills
11 SUSTAINABLE CITIES AND COMMUNITIES	We enable smart cities, increase the **safety & security** of roads and urban areas, enable safe & sustainable workplaces in offices and industry, and **light lives** in off-grid areas	• 80% Sustainable revenues • 5 million lives lit	• 82.5% Sustainable revenues • +3.8 million lives lit
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	We are transitioning to a **circular economy** through circular products and services, responsible packaging, zero waste to landfill and increased recycling	• Zero Waste sent to landfill	• 2% waste sent to landfill, a 70% reduction compared to 2018 • 90% of all manufacturing waste recycled
13 CLIMATE ACTION	We drive **climate action** by going beyond carbon neutral operations to also reduce the carbon footprint of our products, logistics and suppliers	• Carbon Neutrality • 250 suppliers reporting on scope 1 and 2 emissions • 200 suppliers reporting on emission reduction	• 82% carbon neutral • 15 markets carbon neutral • 157 suppliers reporting scope 1 and 2 emissions and 160 suppliers reporting emission-reduction activities

Boosting M&S' sustainability profile with 3D printed luminaires

Fashion and food retailer Marks and Spencer (M&S) is making significant strides in becoming more sustainable by installing 3D printed luminaires, manufactured using a 100% recyclable polycarbonate material.

Customer challenge
M&S was the first major retailer to become carbon neutral, back in 2012. As part of its commitment to become even greener the retailer was looking for a retail lighting application that would reduce the carbon footprint of its stores and complement its sustainability strategy by delivering energy savings.

Solution
M&S installed thousands of 3D printed LED luminaires from Signify in stores in the UK, including London, Manchester, Belfast as well as Dublin and Cork in Ireland. These luminaires are nestled into the existing fittings, ensuring the continued use of current ceiling tiles.

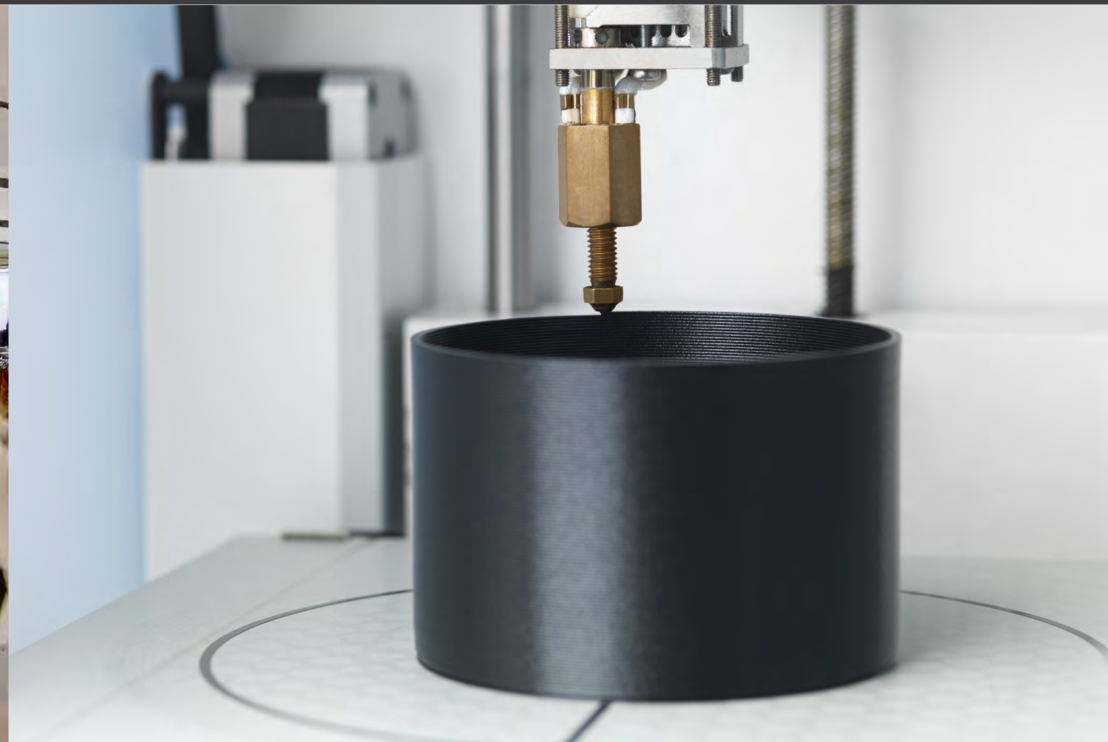
3D printing of luminaires provides a more flexible, fast and more environmentally friendly way to manufacture. A typical 3D printed luminaire (excluding electronics and optics) has a 47% lower carbon footprint than a conventionally manufactured metal luminaire and Signify uses a 100% recyclable polycarbonate material. The luminaires weigh less, reducing the carbon emissions in shipping by 35%. By keeping production close to urban areas, Signify further reduces the footprint, and nearly every component may be reused or recycled, supporting the idea of a circular economy.

3D printed luminaires
Signify aims to have 500 3D printers of different sizes with the ability to create luminaires up to 60 cm height and width.

Its facilities include Maarheeze in the Netherlands, and Burlington, Massachusetts in the US, serving both professional and consumer markets. Additional facilities in Noida, India and Jakarta, Indonesia will follow in 2020.

> **"3D printing has been around for a while, but these luminaires are the first real retail lighting application we've seen that improves the sustainability of our stores and are extremely complementary to our sustainability strategy."**
>
> **Oliver Knowles, Research & Development Manager within the Property Group, Marks and Spencer**

Marks and Spencer – UK



Australis Seafoods – Aysén, Chile

Signify LEDs light up Australis Seafoods sustainable marine-based Chilean fish farm

Thanks to our LED lighting installation, the fish farming process has become more responsible and efficient. It helps the fish convert feed better, reducing the amount of fish food being used, resulting in lower cost and cleaner water.

Customer challenge
According to the UN, nearly 90% of the world's marine fish stocks are now fully exploited, overexploited or depleted. Responsible fish farming can help alleviate the pressure on wild fish stocks. Australis Seafoods, which specializes in the sale of salmon and trout, is committed to ensuring the long-term viability of the fish farming industry. The company needed a lighting solution that would promote the health and growth of their fish and improve the efficiency of their operations.

Solution
The first aquaculture LED lights were installed in Australis' Moraleda fish farm in Aysén, Chile. These underwater lights, up to 100,000 lumens, mimic the summer sun, aiding growth and helping the fish convert feed better, meaning faster growth from less fish food.
This lowers cost and keeps the water cleaner. By installing the lights five meters below the surface, the fish are attracted to that depth, dramatically reducing infections by sea lice, who live closer to the surface.

> "Signify is an innovative player in the Chilean aquaculture industry in relation to lighting. Therefore, and after a comparative evaluation of the different solutions and alternatives, we selected them to be our main photoperiod provider for our fish production."
>
> Lucas Correa, Deputy Manager of Maintenance and Structures at Australis Seafoods

The site realized one of the best production results in Australis Seafoods' records and was named the best Skretting 2019 Fish farm in the XI region of Aysén.
"For several years, Signify has been providing the Chilean salmon industry with innovative photoperiod systems, controlling light duration and further optimizing salmon production. With our LED lighting we help customers improve feed conversion rates, reduce food costs and lower the risk of infection, creating greater overall efficiency in sea-based salmon farms," says Bill Bien, Leader of Signify's Agricultural Lighting business.

Aquaculture
LED lighting is a powerful tool for enhancing fish production and welfare. The adjustable LED technology allows the creation of specific lighting conditions to optimize aquatic environments as fish develop. Aquaculture LED solutions improve feed conversation rates, limit sexual maturation and lower parasite infestations.

The women entrepreneurs lighting up Tanzania

WE SOLVE – Tanzania

The Women Entrepreneurship through the Solar Value chain for Economic development, or WE SOLVE in short, partnership between Solar Sister, BRAC and Signify is committed to bringing access to green-powered lighting technology while also enabling entrepreneurship opportunities for women in rural Tanzania. Together, the three partners provide training for women, products and microfinancing to sell clean energy products in their own and neighboring communities.

Challenge
Rural communities in Tanzania face several important challenges. First, there's the lack of employment and economic opportunities for women. Then the communities lack access to clean energy, meaning that many communities are still forced to use toxic kerosene-powered resources. And lastly, these communities are underserved by banks, limiting people in their ability to start businesses of their own and become entrepreneurs.

Solution
By combining forces and their expertise, Solar Sister, BRAC and Signify are supporting the rise of a new and unique ecosystem. In Tanzania alone, Solar Sister has trained over 1,900 Solar Sister Entrepreneurs (SSEs) to sell clean energy products. Signify – and other providers – are ensuring that Solar Sister entrepreneurs have high-quality, energy-efficient, reliable and safe lighting to sell. BRAC then provides microloans, enabling people without access to traditional financing to purchase solar energy products such as lights and phone chargers.

This innovative, joined-up approach, between a diverse combination of partners, effectively supports sustainable development in these communities. Using this unique model, the partners expect to reach 260,000 households, providing over one million Tanzanians with clean, renewable energy, improving lives and harnessing the energy of the sun to power the latest solar technology – and the local women of Tanzania.

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

> **"I'm very happy to see how joining our forces, covering every segment of the value chain, has now resulted in the start of such an impactful project, enabling so many more women in Tanzania to become solar entrepreneurs. Our model helps the women to create a sustainable livelihood, while helping their families, friends and communities with clean, safe lighting."**
>
> **Katherine Lucey, Founder and CEO, Solar Sister**

3.3 Value Creation Model

At Signify, our strategic priorities aim to address global trends and our stakeholders' expectations, while contributing to the achievement of the UN SDGs. With our purpose to unlock the extraordinary potential of light for brighter lives and a better world, we create long-term value beyond financial performance. Our approach is to optimize value through financial, environmental and social resources. Our activities and our way of doing business impact customers, employees, investors and society at large. By expressing these impacts in monetary terms, stakeholders can consider the indirect economic, social, and environmental effects of our business more effectively. For a trend analysis of our impact, please refer to our Methodology for calculating societal impact on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Demographic change & Urbanization

Climate change & Resource scarcity

Stakeholders

Input

Financial

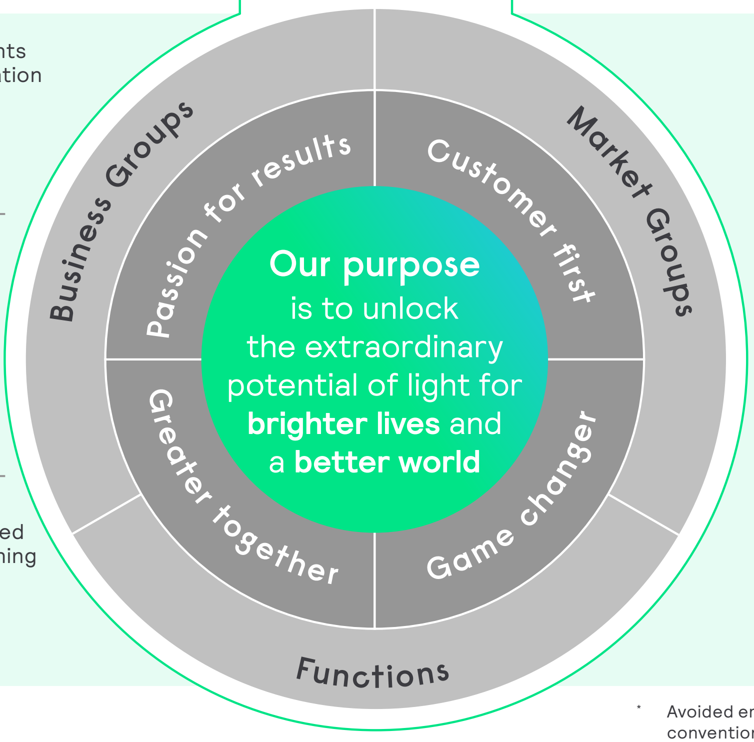
- **EUR 270 million** R&D investments with **83.5%** sustainable innovation
- **EUR 2,324 million** total equity
- **EUR 6,715 million** total assets

Environmental

- **3,885 terajoules** energy with **94%** renewable electricity
- **EUR 2,810 million** materials
- **944 thousands of m³** water

Social

- **32,005 FTE** in 74 countries
- **17,500** learning modules offered
- **EUR 4.25 million** spent on training
- **73** supplier audits
- **EUR 2.1 million** to the Signify Foundation



Output

- **EUR 6,247 million** sales
- **EUR 648 million** adjusted EBITA
- **EUR 529 million** free cash flow
- **19,400** patent rights

- **64 kilotonnes** net CO_2 emitted
- **36.4 kilotonnes** waste with **90%** recycled
- **2,344 million** LED lamps & luminaires, avoiding **56,943 kilotonnes** of CO_2
- **82.5%** sustainable revenues

- **384,000+** e-learnings courses booked
- **99%** supplier sustainability performance
- **59** projects delivered through the Signify foundation
- **0.32** total recordable case rate

Impact

Brighter Lives

We created EUR 298 million in value for society through total shareholder returns, tax and interest payments.

We created EUR 1,000 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

We caused EUR 8.9 million in costs to society through our own environmental footprint. At the same time, we helped create EUR 1,339 million in value through CO_2 avoided by shifting to LED, solar LED and increased biodiversity*.

* Avoided emissions from LED are based on the difference in energy use between conventional and LED light technologies. Energy use of our LED lamps & luminaires results in 10,801 kilotonnes CO_2, equivalent to EUR 1,145 million in costs to society.

Connected streetlights create cost and energy savings in Pune, India

Pune municipality, India

Pune is transforming into a smart city thanks to our connected streetlights. The municipality installed new LED luminaires, as well as remote group control and monitoring through Interact City. The project was fully self-financed through energy and maintenance cost savings.

Customer challenge
The historic city of Pune in western India is home to approximately three million people and is also a popular stop on the tourist trail. The city's conventional streetlights were costly and used a lot of energy. At the same time, planners were keen to establish more even light levels and secure consistent maintenance. A new road lighting solution was proposed to reduce expenses and streamline operations.

Solution
This public-private partnership was the first of its kind in India and is fully self-financed through the energy savings and reductions in maintenance costs that LED technology brings about, meaning the entire project resulted in no additional expenses for the city.

In addition to replacing 80,000 halogen lights with energy-saving LED luminaires, we ensured that all the street lighting is remotely connected and can be monitored and controlled from a single Command & Control room through the Interact City system. This allows city authorities to dim groups of lights. Remote monitoring identifies faulty streetlights, and automatic fault notifications are sent via SMS to registered mobile devices, so that maintenance crews can more easily and swiftly fix or replace them, minimizing downtime.

The result of this ambitious installation has been an overall improvement in street lighting levels, reduction of downtime and reduced energy consumption. The Interact City system has also improved the street lighting systems' performance and enhanced road safety for citizens.

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

> **"Our vision is for Pune to become a smart city, transforming the lives of residents using technology. We're not only replacing the streetlights with LED, but also controlling them centrally."**
>
> **Kunal Kumar, IAS, Commissioner, Pune Municipal Corporation**

Reporting at light speed as Hamburger SV installs Trulifi

German football club Hamburger SV provided journalists and photographers with fast, secure and reliable connectivity as it equipped the press center's new luminaires with the latest Trulifi system.

Customer challenge
Football stadiums are places where many people gather, all excited to share pictures and clips from the match through their devices. The Volksparkstadion in Hamburg has a capacity of 57,000 and like many stadiums, the wireless signal in its busy press center was prone to overloading. This was due to journalists accessing the network and interference from the mobile devices of fans, staff and officials, all pinging the wireless router.

Solution
Signify installed 84 Philips PowerBalance gen2 LED recessed luminaires in the stadium's press center. Eight of the luminaires have an integrated Trulifi 6002 transceiver, which modulates infrared light waves to provide an Internet connection of up to 150 megabits per second (Mbps), a capacity substantially greater than either 4G or WiFi.

Journalists using the system receive a USB Access Key, which plugs into their laptop. This picks up the LiFi signal and transmits data back to the luminaire. The LiFi system is free from interference and encrypted. Also, an extra layer of security is built-in as light waves cannot pass through walls.

Thanks to Trulifi, journalists won't miss a deadline and photographers can file their pictures at light speed.

> **"We opted for LiFi given the increasing demand for bandwidth from journalists using our press center. For them a reliable wireless connection is everything."**
>
> **Daniel Nolte, segment leader area organization & infrastructure, Hamburger SV**

Trulifi
Signify launched its Trulifi systems in 2019 and has installed more than 100 projects worldwide, showing a growing demand for the technology in offices, the hospitality sector, government institutions, industry and transportation. Trulifi combines energy-efficient LED lighting with a reliable, secure and high-speed two-way wireless connection, with speeds of up to 250 Mbps for the downlink and the uplink.

Volksparkstadion – Hamburg, Germany

Supercharging in-home entertainment with Philips Hue Play HDMI Sync Box

Philips Hue Play HDMI Sync Box – USA

You've heard of surround sound, but have you heard of surround lighting?

"The Philips Hue Play HDMI Sync Box opens new ways of enjoying entertainment with light. It adds another dimension to the content and increases overall enjoyment of consuming entertainment as we know it."

Niek Janssen, product manager, Home Systems and Luminaires at Signify

Challenge
Philips Hue leads the smart lighting industry with a comprehensive portfolio of indoor and outdoor smart light bulbs, fixtures, and accessories. Its smart lighting ecosystem offers routines to automate your home lighting, preset and custom light scenes to set the mood in any room of your home, integration with other smart home assistants and products, and more.

In 2018, Philips Hue launched the Hue Sync desktop app, a proprietary computer software that allows color-capable smart lights to react to the content on a computer screen. The feature was lauded – but users still wanted more. They wanted the ability to use Hue Sync with their home entertainment setup.

Solution
In 2019, Signify released the Philips Hue Play HDMI Sync Box and the accompanying Hue Sync mobile app. The sync box allows users to connect their color-capable Philips Hue bulbs, fixtures, and lamps to the HDMI-connected content on their TV screen, while the Hue Sync mobile app lets users control the sync box and customize the way their lights react to the content on their TV screen. During the first month after launch, the sync box sold 4,904 units in the United States; an average of 95% of consumers now use the device daily.

The Philips Hue Play HDMI Sync Box
With four inputs and one output, users can connect up to four HDMI devices, such as gaming consoles and streaming devices, to the sync box. The sync box acts as a middleman between the devices and TV, relaying the signals from the HDMI devices to the lights and making them dim, brighten, dance, and flash along with the TV content.

4 Corporate performance

Key figures in millions of EUR unless otherwise stated

	2018	2019
Sales	6,358	6,247
Comparable sales growth [1]	(4.4)%	(4.6)%
Gross margin	2,382	2,307
as a % of sales	37.5%	36.9%
Income from operations	410	401
Financial income and expenses	(41)	(43)
Income tax expense	(106)	(93)
Net income	261	267
Adjusted gross margin [1]	2,433	2,360
Adjusted indirect costs [1]	(1,896)	(1,813)
Adjusted EBITA [1]	640	648
as a % of sales	10.1%	10.4%
Restructuring, acquisition and incidental items [1]	(136)	(148)
EBITA [1]	504	500
Basic earnings per share in EUR	1.95	2.08
Dividend per share in EUR [2]	1.30	1.35
Shareholders' equity	2,041	2,181
Net debt [1]	589	618
Working capital [1]	536	388
Net cash provided by operating activities	381	599
Free cash flow [1]	306	529
as a % of sales	4.8%	8.5%

[1] For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of non-IFRS financial measures, of this Annual Report.
[2] 2019 Dividend subject to approval by the 2020 Annual General Meeting of Shareholders.

4.1 Financial performance

4.1.1 Company performance

2019 was a year of solid progress, during which Signify reported sales of EUR 6,247 million, improved its Adjusted EBITA margin by 30 basis points to 10.4%, increased net income to EUR 267 million and delivered net cash provided by operating activities of EUR 599 million.

Signify reported sales of EUR 6,247 million, a reduction of 1.8% on a nominal basis. Adjusted for 1.6% currency effects and 1.3% consolidation impact, comparable sales declined by 4.6%.

The performance in 2019 reflected a challenging macro-environment, with higher overall uncertainty and lower market activity in certain markets, most notably in Europe, India and the United States. This mainly impacted the Professional and LED electronics businesses and was partly offset by a strong performance in Home. Comparable LED-based sales grew by 1.4% and represented 78% of total sales compared with 71% in 2018.

Signify's gross margin amounted to EUR 2,307 million in 2019 compared with EUR 2,382 million in 2018. The adjusted gross margin as percentage of sales reduced by 50 basis points to 37.8%, including a negative currency effect of 30 basis points.

Indirect costs decreased by EUR 67 million, as a result of the continued rigorous implementation of cost reduction initiatives during the year. Adjusted indirect costs decreased by EUR 83 million, or 80 basis points as a percentage of sales. In 2019, the company continued its journey to operational excellence. Initiatives included accelerating new growth platforms, driving sales excellence, and increasing efficiency in manufacturing, supply chain, procurement and support functions.

The company reported EBITA of EUR 500 million. The Adjusted EBITA amounted to EUR 648 million. This resulted in a 30 basis points improvement in the Adjusted EBITA margin to 10.4%.

R&D expenses amounted to EUR 283 million compared with EUR 312 million in 2018. This included EUR 13 million of restructuring charges compared with EUR 25 million in 2018, resulting in adjusted R&D expenses of EUR 270 million in 2019. As a percentage of sales, adjusted R&D expenses decreased from 4.5% in 2018 to 4.3% in 2019.

Income from operations decreased from EUR 410 million in 2018 to EUR 401 million in 2019. The delta can mainly be explained by higher acquisition-related charges and incidental items. Acquisition-related charges amounted to EUR 13 million and are mainly related to the intended acquisition of Cooper Lighting Solutions and the acquisition of Klite. Incidental items amounted to EUR 36 million. These items have a non-recurring nature and relate to, among other items, transformation initiatives and real estate gains. Restructuring costs were EUR 99 million in 2019, with the majority of costs related to Lamps and Professional. Net income amounted to EUR 267 million compared with EUR 261 million in 2018, and benefited from lower income tax expense.

Net cash provided by operating activities increased from EUR 381 million to EUR 599 million, mainly driven by better working capital, lower income taxes paid, and EUR 71 million positive impact from the application of IFRS 16 in 2019. Free cash flow increased from EUR 306 million in 2018 to EUR 529 million, or 8.5% of sales, in 2019. Net capital expenditures amounted to EUR 70 million in 2019, or 1.1% of sales. For 2020, net capital expenditures are expected to be in the range of 1.0% to 1.5% of sales.

Shareholders' equity increased by EUR 140 million to EUR 2,181 million, primarily driven by net income, partially offset by the dividend distribution. In 2019, EUR 164 million of capital was returned to the shareholders through the company's annual dividend payment.

Net debt at year-end increased by EUR 29 million to EUR 618 million compared with the same period of 2018, due to a EUR 200 million increase in gross debt mainly related to IFRS 16 which was partly offset by an increase in the cash position. Working capital decreased year-on-year by EUR 148 million to EUR 388 million. As a percentage of sales, working capital improved by 220 bps to 6.2% of sales, mainly driven by the consolidation of Klite as of October 1, 2019, higher payables and lower accounts receivable.

As of December 31, 2019, Signify had a net pension liability of EUR 437 million, compared to EUR 474 million at December 31, 2018. During 2019, Signify made a contribution of USD 20 million to the pension fund in the United States.

Signify employed 32,005 full-time equivalents (FTEs) at year-end 2019, compared with 29,237 at year-end 2018. The increase in FTEs is driven by the acquisitions that were completed in 2019.

4.1.2 Growing profit engines

The growing profit engines - LED, Professional and Home - represent the foundations Signify is building on and investing in, in line with the company's strategy to move to LED and connectivity, unleashing new growth platforms.
The growing profit engines reported sales of EUR 5,061 million, a nominal increase of 3.0%, particularly driven by acquisitions made. Comparable sales growth of the growing profit engines was -0.3%, mainly due to a challenging macro environment resulting in lower market activity in Europe, India and the United States. Our growth platforms, connected systems, IoT platform services, Horticulture, Solar, LiFi and 3D printing, showed positive momentum in 2019.
The Adjusted EBITA margin of the growing profit engines improved by 180 basis points to 10.4%, with each of the three business groups improving profitability. The growing profit engines substantially increased free cash flow to EUR 559 million in 2019 and each of the three business groups generated positive free cash flow.

Growing profit engines in millions of EUR unless otherwise stated

	Sales		CSG[1, 2]		Adj. EBITA margin		Free cash flow[2, 3]	
	2018	2019	2018	2019	2018	2019	2018	2019
LED	1,812	1,891	0.4%	(1.1)%	11.7%	12.7%		
Professional	2,635	2,649	(0.4)%	(1.7)%	9.5%	10.0%		
Home	467	521	(3.8)%	11.3%	(8.1)%	3.8%		
Growing profit engines	**4,914**	**5,061**	**(0.4)%**	**(0.3)%**	**8.6%**	**10.4%**	**370**	**559**

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

4.1.3 Performance by Business Group

Performance LED

About LED

LED sells a wide variety of LED lamps, namely spots, bulbs and tubes, to the professional and consumer channels. In addition, the Business Group sells LED electronic components, consisting of LED drivers and LED modules, to luminaire OEMs for professional luminaire applications in the retail, office, industry and outdoor segments. In 2019, Signify acquired a 51% stake in Klite, one of the leading providers of high-quality, cost-efficient LED lamps and luminaires.

Based on research performed internally, the company believes that LED held the number one position in sales in the global LED lamps and electronics market in 2019.

Key figures LED
in millions of EUR unless otherwise stated

	2018	2019
Sales	1,812	1,891
Nominal sales growth	(4.7)%	4.4%
Comparable sales growth[1]	0.4%	(1.1)%
Income from operations (or EBIT)	200	212
EBITA[1]	204	217
Adjusted EBITA[1]	212	240
as a % of sales	11.7%	12.7%
Number of employees (in FTEs)	5,979	11,790

[1] For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.

Strategic priorities

LED aims to further strengthen its leadership position in LED lamps and LED electronics by continuously improving customer value through feature differentiation (e.g. EyeComfort) and leading the transition towards connectivity. On the LED lamps side, this includes winning market share by providing the most complete and compelling offering to its customers and enlarging distribution. In LED electronics, the aim is to lead the transition to smart lighting through innovation leadership in connected components and digitization of design and supply chain to serve its OEM partners.

Acquisitions

In 2019, Signify closed the acquisition of Klite which will strategically strengthen the company's position in the supply chain of LED lamps and luminaires. The combined expertise, innovation power and distribution scale will help to deliver cost-efficient innovations to customers faster, including connected lighting offers. In addition, Klite will allow LED to capture more value from the growing private label segment.

Signify also acquired WiZ Connected, developers of the WiZ Wi-Fi-based connected lighting ecosystem. The addition of WiZ enables Signify to extend its leadership by stepping into the Wi-Fi-based smart lighting market.

2019 Business highlights

- **UniversalFit TLED in North America:** this product is compatible with any ballast, making replacement of fluorescent tubes easier than ever before.
- **TrueForce Urban in Europe:** this lamp is used to replace conventional High-Intensity Discharge lamps. It creates a pleasant and safe atmosphere in outdoor environments with LED retrofit. The lamp is easy to install, creates 80% energy savings and has a payback period of less than two years.
- **Wi-Fi based smart lighting in the United States, Europe and India:** provides consumers with easy-to-install smart lighting, which operates with the WiZ Connected Ecosystem via the WiZ App. The retrofit light bulbs fit any table lamp, luminaire or downlight.
- **Dual-zone ceiling luminaires in China** with an RF remote control to set innovative unique light effects and light features such as 'going to sleep'. The product is offered in many different design styles to seamlessly integrate in various interiors.
- **Launch of world's smartest outdoor LED driver:** enables connect-ready and connected outdoor lighting. The driver offers IntelliStart, enabling a maximum number of light poles on a single circuit breaker and energy metering with 99% accuracy.
- **Private label wins:** LED's private label business showed a solid performance with 22 tenders won in 2019.

2019 Financial performance

Sales were EUR 1,891 million, reflecting a nominal sales increase of 4.4% as a result of the 51% stake in Klite. Comparable sales declined by 1.1%. LED lamps delivered a solid performance, out-growing the market mainly in Europe and Asia, while sales in LED electronics were impacted by lower customer demand in most regions.

Income from operations increased to EUR 212 million compared with EUR 200 million in 2018, driven by management of price and mix. Adjusted EBITA amounted to EUR 240 million. This resulted in an improvement of the Adjusted EBITA margin of 100 basis points to 12.7%.

Market developments

There is a transition in both professional and consumer segments from LED lamps to functional LED luminaires and connected solutions, as anticipated in the company's strategy. This trend is driven by an increasingly compelling proposition of both integrated LED luminaires and connected solutions in particular, whilst at the same time the replacement cycle of LED Lamps reduces due to its longer lifetime.
The company expects this trend to continue for the foreseeable future. This provides a solid growth path with the ambition to drive market share gains and leadership in functional luminaires as connected lighting. Signify continues to expect that the LED lamps market will peak in 2020 in terms of volumes. The LED electronics market is expected to grow, particularly driven by the shift to connected lighting. LED will drive growth in LED electronics through the transition to smart lighting via innovation

leadership in connected components and by expanding the market position in indoor LED electronics.

2020 and beyond

In 2020, LED will continue to drive LED sales growth through gaining market share and by driving the transition to connected lighting, functional LED luminaires and indoor electronics. At the same time, LED will continue to focus on further improving its profitability and cash profile through product differentiation, cost reductions and working capital improvements by leveraging the Klite acquisition. Furthermore, organizational efficiencies will benefit the indirect costs.

Performance Professional

About Professional

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

Key figures Professional
in millions of EUR unless otherwise stated

	2018	2019
Sales	2,635	2,649
Nominal sales growth	(4.2)%	0.5%
Comparable sales growth[1]	(0.4)%	(1.7)%
Income from operations (or EBIT)	121	133
EBITA[1]	208	222
Adjusted EBITA[1]	251	265
as a % of sales	9.5%	10.0%
Number of employees (in FTEs)	11,275	10,570

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.

Strategic priorities

Professional focuses on strengthening its global lighting leadership position by further innovating in LED products, winning in Systems & Services and unlocking the potential in businesses such as Horticulture, Solar, LiFi and 3D printing. Systems & Services accounted for 24% of sales in 2019. At the same time, Professional leverages its scale to reduce cost of production. Another strategic priority is to successfully integrate the recently announced acquisition of Cooper Lighting Solutions.

Acquisitions

In October 2019, Signify has entered into a definitive agreement with Eaton to acquire Cooper Lighting Solutions. The acquisition will strengthen Signify's position in the attractive North American lighting market, with increased innovation power and more competitive offerings. In addition, the acquisition will improve the business mix with Professional revenues increasing from 42% to 53% of total sales. Cooper Lighting Solutions has about 5,100 employees. Closing is subject to regulatory approvals and expected to take place in the first quarter of 2020.

In 2019, Signify acquired animal-centric lighting experts Once Inc. and iLOX to capture attractive growth in agricultural lighting. With this acquisition, Signify adds know-how, technology and expertise in animal lighting that complements the horticulture lighting business. These tailor-made lighting systems improve the quality of life for livestock, which leads to healthier and enhanced production for the farmer.

2019 Business highlights

- **Launch of tailor-made 3D printed luminaires for circular economy:** 3D printing reduces the carbon footprint by 47% compared with metal luminaires. Signify expands 3D printing capabilities with facilities in the United States, India and Indonesia.
- **Launch of Trulifi:** the world's fastest commercial LiFi systems provides highly reliable and secure high-speed wireless communication through existing and future lighting infrastructure. Signify has extended partnerships with key players including Vodafone for 5G, Latecoere for commercial airplanes, and Ellamp for buses and trains. There are already more than 100 pilots worldwide using Trulifi.
- **Launch of BrightSites:** offers a ready platform for lighting and city-wide 4G/5G and WiFi infrastructure. It accommodates a wide variety of IoT sensors.
- **Installation of Philips SunStay solar streetlights in park in Seville:** helps Seville, a city committed to sustainability and ecology, to reduce energy costs and improve its carbon footprint, while enhancing the safety of visitors to the park.
- **Enabled Prime Delica to grow healthier and safer crops for 7-Eleven customers in Japan:** through research, Signify helped Prime Delica to develop an optimal light recipe to increase vitamin levels and the nutritional value of lettuce.

2019 Financial performance

Sales increased 0.5% on a nominal basis to EUR 2,649 million. This represents a decrease of 1.7% on a comparable basis. During the year, Professional was impacted by weak market conditions, most notably in certain markets in Europe and in India.

Professional reported income from operations of EUR 133 million in 2019. Adjusted EBITA amounted to EUR 265 million. The Adjusted EBITA margin improved by 50 basis points to 10.0%, as procurement and indirect cost savings more than offset the negative impact of price and mix. Restructuring charges amounted to EUR 22 million, mainly related to simplification of business structures, reduction of indirect costs and industrial footprint rationalization.

Market developments

The professional lighting market is a large, growing and resilient market. As the global leader in this market, Signify is well positioned to benefit from powerful global trends such as the shift to connected lighting. Signify's Interact platform is designed to handle data collected from the growing number of connected light points, sensor devices and systems. The transition to connected lighting is occurring rapidly, particularly in developed countries. Professional systems typically control a large network of lights. Potential savings for customers based on total cost of ownership tend to be significant. As an example, Interact City enables cities to centrally manage street lighting and adapt intensity depending on weather, traffic movement or organized events, thereby realizing significant energy cost savings. Up till now, Signify has completed over 1,900 road & street lighting projects in close to 60 countries. In 2019, Signify installed 12 million connected light points world-wide to a total of 56 million across all segments (both professional and consumer). The total number of existing light points worldwide is around 26 billion, showing that the connected lighting market continues to offer significant growth potential for Signify.

2020 and beyond

Professional continues to implement its strategy focused on innovating in LED products, winning in Systems & Services, and unlocking potential in growth platforms such as Horticulture, Solar, LiFi and 3D printing, while continuing the optimization of its cost structure.

Performance Home

About Home

Home is the global market leader in connected home systems and a top-three player in selected home luminaires markets. The Business Group develops and sells connected lighting systems and luminaires. For the development of its offering, Home builds on the company's strong in-house R&D capabilities and knowledge in LED and lighting applications, complemented by extensive qualitative and quantitative consumer research.

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

Key figures Home
in millions of EUR unless otherwise stated

	2018	2019
Sales	467	521
Nominal sales growth	(8.0)%	11.6%
Comparable sales growth [1]	(3.8)%	11.3%
Income from operations (or EBIT)	(44)	3
EBITA [1]	(43)	5
Adjusted EBITA [1]	(38)	20
as a % of sales	(8.1)%	3.8%
Number of employees (in FTEs)	1,656	1,516

[1] For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.

Strategic priorities

Home aims to further realize profitable growth by driving the transition to connected lighting for consumers in and around the house. Its strategic priorities include expanding the reach, breadth and richness of Philips Hue. The aim is to achieve this by investing in marketing and broadening the portfolio to drive volumes and to further expand in growth markets.

2019 Business highlights

- **Launch of Philips Hue with Bluetooth:** this new offering enables direct light control from a smart device without the need for a bridge, and provides consumers with an easy entry into the smart home lighting market.
- **Introduction of Philips Hue Play HDMI Sync box:** provides an easy way to synchronize all digital content with up to ten Philips Hue lights. It is compatible with movies, TV shows and games, and complements screen action in the living room.
- **Launch of smart accessories:** the smart button allows consumers to control their Philips Hue lights with a single press, or press and hold to brighten and dim. The smart plug turns any light point with power plug into a Philips Hue smart light.

2019 Financial performance

Sales amounted to EUR 521 million in 2019, with a nominal sales increase of 11.6% and comparable sales growth of 11.3%. This was on the back of a particularly strong performance in Europe as Home experienced robust demand for connected offers.

Income from operations amounted to EUR 3 million compared with EUR (44) million last year, driven by a higher top-line, gross margin improvement and cost optimization. Adjusted EBITA amounted to EUR 20 million, resulting in an Adjusted EBITA margin of 3.8%.

Market developments

The consumer lighting market is expected to benefit from the transition to LED luminaires and the increasing adoption of connected home lighting systems. The market for smart home lighting systems is expanding rapidly. At the same time, Home is experiencing more connected lighting offerings coming to the market.

2020 and beyond

Home will continue to focus on driving profitable growth by retaining its market leadership position and expanding the reach, breadth and richness of the Philips Hue offering.

Performance Lamps

About Lamps

Lamps is the global market leader in the conventional lighting business and comprises the company's conventional lamps and lamp electronics businesses. It produces and sells lamps, based on a wide variety of non-LED based technologies. This includes HID, TL, compact fluorescent, halogen, incandescent, as well as electronic components (electronic ballasts and drivers) and specialty lighting. Conventional lamps are used in a wide variety of residential and professional applications and are bought by consumers, electrical

installers and professional end-users through a wide range of channels.
Lamp electronics are mainly sold to luminaire manufacturers directly and as replacement products to electrical wholesalers. Finally, Lamps sells digital projection lamps and drivers to the original equipment manufacturers (OEMs) market and the replacement market.

Key figures Lamps in millions of EUR unless otherwise stated

	2018	2019
Sales	1,428	1,159
Nominal sales growth	(20.1)%	(18.8)%
Comparable sales growth[1]	(16.2)%	(20.5)%
Income from operations (or EBIT)	269	168
EBITA[1]	270	168
Adjusted EBITA[1]	302	222
as a % of sales	21.1%	19.2%
Free cash flow[1, 2]	308	222
Number of employees (in FTEs)	9,393	7,312

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

Strategic priorities

Lamps, the cash engine, enables Signify to leverage strong commercial synergies in brand coverage and customer reach and aims to optimize free cash flow. While the overall conventional market continues to decline, Lamps' focus is on winning market share in key segments and markets to remain the 'the last company standing'.

Lamps continues to proactively manage its manufacturing footprint and reduce operational costs.

2019 Business highlights

Legislation to ban certain conventional technologies remains an important factor impacting the development of the conventional market. Lamps invests in R&D to maintain a legislation-compliant portfolio and still looks at opportunities for innovation such as for specialty lighting and conventional horticultural lighting.

As part of its strategy, Lamps is proactively managing its manufacturing footprint. Signify operated 13 manufacturing plants for conventional lamps at the end of 2019 compared with 45 at the end of 2008. In the fourth quarter of 2019, the production site in Hamilton, United Kingdom, was closed.

2019 Financial performance

Sales for 2019 amounted to EUR 1,159 million, a decline of 18.8% on a nominal basis and 20.5% on a comparable basis.

Income from operations reduced to EUR 168 million, due to the ongoing decrease in sales and higher restructuring costs, partly offset by proactive rationalization of the manufacturing footprint and a reduction in indirect costs. Restructuring costs amounted to EUR 44 million and were mainly related to further optimization of the manufacturing footprint. Adjusted EBITA for 2019 decreased to EUR 222 million compared with EUR 302 million in 2018. The Adjusted EBITA margin remained robust at 19.2% in 2019. As a cash engine, Lamps continues to deliver on its 'last company standing' strategy, which resulted in further market share gains and strong free cash flow generation of EUR 222 million in 2019.

Market developments

Signify estimates that the conventional lighting market declined at a faster pace than its Lamps business in 2019 and thus, continued to gain market share.

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

2020 and beyond

The performance of Lamps in 2019 reflected the successful execution of the 'last company standing' strategy to extract value from the conventional business. In 2020, Lamps will continue to execute its strategy and optimize free cash flow by leveraging the Business Group's cost advantage, scale, global footprint and lean manufacturing capabilities while responding to customer demand for conventional products.

Performance Other

Other reported income from operations of EUR (114) million and EBITA of EUR (112) million, including restructuring costs of EUR 14 million. Other represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as company-enabling functions. Adjusted EBITA amounted to EUR (100) million in 2019, compared with EUR (87) million in 2018. The number of FTEs was 817 at the end of 2019, versus 935 at the end of 2018.

4.1.4 Performance by geographic cluster

Comparable sales in Europe decreased by 4.4%, mainly reflecting challenging market conditions in Germany, Italy and France. Comparable sales in the Americas decreased by 7.5%, mainly as a result of the ongoing decline of conventional and more challenging market conditions in LED electronics and Home. In the Rest of the World, comparable sales decreased by 2%, particularly due to India.

Sales by geography in millions of EUR unless otherwise stated

	2018	2019	Change	CSG[1, 2]
Europe[3]	2,337	2,238	(4.3)%	(4.4)%
Americas[3]	1,830	1,747	(4.5)%	(7.5)%
Rest of the world[3]	1,840	1,855	0.8%	(2.0)%
Global businesses[3]	352	406	15.5%	(4.4)%
Total	**6,358**	**6,247**	**(1.8)%**	**(4.6)%**

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 Comparable sales growth.
3 Horticulture is included in Market Groups Europe, Americas and Rest of the World (was previously part of Global businesses).

4.2 Sustainability performance

Brighter Lives performance

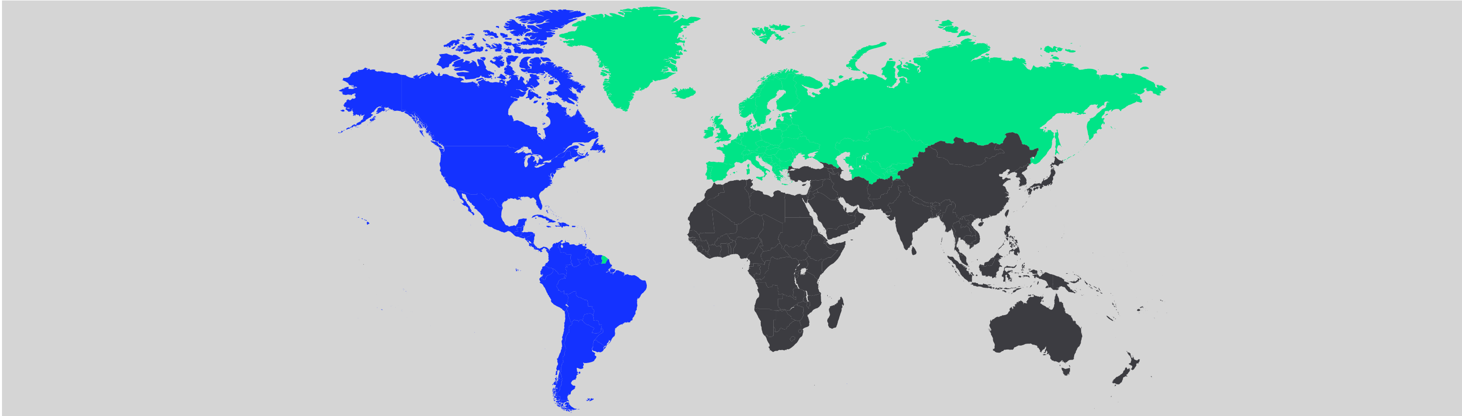
In 2019, our workforce increased to 32,005 FTEs (2018: 29,237 FTEs). This was primarily due to Signify's new acquisitions over 2019. Employee engagement is measured through the employee Net Promoter Score (NPS). Our NPS greatly improved in 2019 with an overall score of 18 (2018: 13). Our safety performance indicator (TRC rate) was 0.32 per 100 FTEs (0.29 in 2018). This is a 56% improvement from our 2015 baseline and already meets our 2020 target on safety.

Better World performance

Our operational carbon footprint was 363 kilotonnes, a decrease of 9.5% compared with 2018. This was due to a decrease in emissions from logistics and manufacturing activities. We also invested in carbon offsets resulting in a 56% net carbon footprint reduction year-on-year. In 2019, we were able to effectively reduce the amount of waste sent to landfill, as defined by our commitment, by 70% compared to 2018. In 2019, 90% of our total waste was recycled.

Through our global presence, we drive sustainability across 19 markets.

Sustainable performance per market



	FTEs		Manufacturing sites		Safety TRC rate		CO_2 emitted (kilotonnes)		Waste recycled	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Europe	**12,697**	**11,442**	**16**	**16**	**0.31**	**0.36**	**126**	**119**	**81%**	**86%**
Benelux	3,620	3,294	4	5	0.29	0.41	22	18	88%	82%
Eastern Europe	6,572	5,836	6	7	0.24	0.16	74	73	75%	87%
DACH (Germany, Austria, and Switzerland)	425	401	0	0	0.17	0.00	5	4	–	–
France	619	572	0	0	2.29	5.53	10	10	–	–
Iberia	658	688	2	2	0.85	0.79	6	6	84%	80%
Italy, Israel, and Greece	256	183	2	1	0.00	0.46	3	3	–	–
Nordics	243	238	1	1	0.00	0.00	2	2	–	–
UK & Ireland	304	231	1	0	0.00	0.00	4	3	85%	–
Americas	**7,587**	**6,100**	**16**	**15**	**0.40**	**0.31**	**136**	**133**	**88%**	**89%**
Canada	669	592	2	2	1.30	0.18	9	10	92%	93%
Latin America	4,356	3,453	6	6	0.17	0.15	25	26	89%	90%
United States of America	2,563	2,056	8	7	0.54	0.68	102	97	87%	86%
Rest of the world	**8,953**	**14,463**	**10**	**13**	**0.15**	**0.25**	**139**	**111**	**75%**	**98%**
Africa	123	112	0	0	n.a.	–	5	4	–	–
ASEAN	463	458	0	0	0.00	0.00	6	4	–	–
Indonesia	173	180	0	0	0.00	0.00	3	2	–	–
Greater China	4,664	10,431	4	8	0.10	0.16	45	37	96%	97%
India	2,440	2,389	2	1	0.21	0.12	60	47	100%	100%
Far East	75	75	0	0	0.00	0.00	3	2	–	–
Middle East & Turkey	839	649	3	3	0.38	0.95	8	7	25%	89%
Pacific	177	170	1	1	0.00	1.80	9	8	–	–

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, 2019, 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.

A proposal will be submitted to the 2020 Annual General Meeting of Shareholders to declare a dividend of EUR 1.35 per share, in cash, from the net income for full-year 2019, which represents an increase of 3.8% compared with 2018, and a pay-out ratio of 47%.

The balance sheet presented in this report, as part of the company financial statements for the period ended December 31, 2019, is before appropriation of the result for the financial year 2019.

4.4 Outlook

For 2020, Signify aims to achieve a further improvement in the Adjusted EBITA margin and to deliver a free cash flow of at least 6% of sales. This outlook excludes the announced acquisition of Cooper Lighting Solutions. An update on the outlook will be provided after the closing of the Cooper Lighting Solutions acquisition, which is expected in the first quarter of 2020 as previously indicated.

4.5 Organizational change

On January 20, 2020, Signify announced its intent to adapt its business structure to enable a stronger customer focus and enhanced specialization to further increase execution speed. To this end, the company intends to move from its current four business groups (BG) to three divisions: Digital Solutions, formerly known as BG Professional, Digital Products, which combines BG LED and BG Home, and Conventional Products, which is the current BG Lamps. As a consequence, Signify intends to adapt its segment reporting accordingly.

5 Three-year overview

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

	2017	2018	2019
Income statement			
Sales	6,965	6,358	6,247
Comparable sales growth[1]	0.5%	(4.4)%	(4.6)%
Nominal sales growth	(2.1)%	(8.7)%	(1.8)%
Sales of LED based products (as a % of sales)	65%	71%	78%
Gross margin	2,704	2,382	2,307
as a % of sales	38.8%	37.5%	36.9%
Income from operations (EBIT)	441	410	401
Net income	281	261	267
Adjusted EBITA[1]	669	640	648
as a % of sales	9.6%	10.1%	10.4%
EBITA[1]	571	504	500
Net income attributable to shareholders	294	263	262
Basic earnings per share in EUR	2.04	1.95	2.08
Dividend per share in EUR[2]	1.25	1.30	1.35
Balance sheet			
Total assets	6,678	6,181	6,715
Shareholders' equity	2,242	2,041	2,181
Net debt[1]	367	589	618
Working capital[1]	597	536	388
Investments and cash flow			
Cash flow from operating activities	435	381	599
Net Capital expenditure	(31)	(75)	(70)
Free Cash Flow[1]	403	306	529

1 For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
2 2019 Dividend subject to approval by the 2020 Annual General Meeting of Shareholders.

Three-year sustainability summary

	2017	2018	2019
Sustainable revenues, in millions of euros	5,363	5,005	5,102
Sustainable revenues, as a % of total sales	77.3%	79.0%	82.5%
Sustainable innovation, in millions of euros	277	236	225
Sustainable innovation, as a % of adjusted research & development spend	82.7%	82.2%	83.5%
Operational gross carbon footprint, in kilotonnes CO_2-equivalent	519	401	363
Operational energy consumption, in terajoules	4,408	4,054	3,885
Operational energy efficiency, in terajoules per million euro sales	0.63	0.64	0.62
Renewable electricity, as a % of total electricity usage	80%	89%	94%
Water intake, in thousands m^3	1,321	1,266	944
Total waste to landfill in scope of our commitment, in kilotonnes	2.9	2.4	0.7
Materials provided for recycling via external contractor per total waste, in %	84%	82%	90%
Restricted substances, in kilograms	5	4	1
Emissions of VOCs in lacquering processes	1,682	1,463	967
ISO-14001 certification, as a % of all reporting organizations	85%	79%	77%
Employee net promoter score	14	13	18
Female executives, in % of total	17%	17%	17%
Total recordable cases, per 100 FTEs	0.41	0.29	0.32
Lost workday injuries, per 100 FTEs	0.27	0.18	0.19
Fatalities	1	1	1
Initial and continual supplier conformance audits, number of audits	112	96	73
Suppliers audits, performance rate, in %	95%	93%	99%

Governance

6 Board of Management

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

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

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

René van Schooten
Born 1959,
Dutch
Member of the
Board of Management
since May 2016

Eric Rondolat
Born 1966,
Italian/French
Chief Executive Officer
Chairman of the
Board of Management
since May 2016

Stéphane Rougeot [1]
Born 1968,
French
Chief Financial Officer
Member of the
Board of Management
since May 2017

[1] As announced earlier, Stéphane Rougeot will leave Signify as of March 1, 2020. René van Schooten will take over the responsibility as CFO as of that date.

7 Supervisory Board

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

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

Arthur van der Poel
Born 1948,
Dutch

Chairman

Committee(s) [B,C]
Chairman of the Corporate Governance and Nomination & Selection Committee
Member of the Supervisory Board since 2016; first term expires in 2020

Former member of the Board of Management of Royal Philips. Currently Chairman of the Supervisory Board of BDR Thermea Group B.V.

Gerard van de Aast
Born 1957,
Dutch

Vice-Chairman

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

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

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

Supervisory Board

Eelco Blok
Born 1957,
Dutch

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

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

Rita Lane
Born 1962,
American

Committee(s) [B,C]
Member of the Supervisory Board since 2016; first term expires in 2020

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

Jill Lee
Born 1963,
Singaporean

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

Currently Chief Financial Officer and member of the Executive Committee of Sulzer, nominated as an independent member of the Board of Directors of Schneider Electric.

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

8 Supervisory Board report

8.1 Introduction by the Chairman

I am pleased to present our Supervisory Board report for 2019. This report provides information on how the Supervisory Board and its committees performed their duties in 2019.

The year 2019 marks the third full year of Signify as an independent and publicly listed company. Over the last few years it has continued its transformation from conventional lighting technologies to LED, smart and connected lighting and launched its new company name: Signify. In 2019 Royal Philips sold its remaining shares in Signify N.V. By doing so, the remaining 10.7% of the company's shares came into the hands of other investors with whom we are dedicated to build a solid and long-lasting relationship. 2019 was also the year in which Signify announced its intent to acquire Cooper Lighting Solutions; a leading provider of professional lighting, lighting controls and connected lighting in North America. This is an ambitious and strategic move that reinforces the company's position in the Americas and worldwide. The closing of the transaction is still subject to regulatory approvals and other customary conditions and is expected to take place in the first quarter of 2020. To summarize it: we can look back at an eventful year with important developments for the company. Looking forward, we believe that these developments support a solid strategy and provide the right ingredients for a bright future.

The Supervisory Board has three committees that cover key areas in greater detail: the Audit Committee, the Corporate Governance and Nomination & Selection Committee, and the Remuneration Committee. The charters of the committees are published on the company's website.

8.2 Key discussion topics and meetings in 2019

Meetings and information

The Supervisory Board held thirteen meetings in 2019, either in person or by means of a conference call. The Supervisory Board and committee meetings were well attended. In case of absence, pre-discussions on the topics always took place with the Chairman. The Supervisory Board consists fully of independent members. There were no apparent conflicts of interest of material significance in 2019.

Supervisory Board and Committee Attendance Record

	Supervisory Board physical meetings	Supervisory Board calls	Audit Committee	Nomination & Selection Committee	Remuneration Committee
Arthur van der Poel	7/7	6/6		7/7	4/4
Gerard van de Aast	7/7	6/6	5/5		4/4
Rita Lane	7/7	6/6		7/7	4/4
Jill Lee	7/7	6/6	5/5		
Eelco Blok	7/7	3/6	5/5	7/7	

Each of the Supervisory Board committees regularly convened and reported back on their activities to the full Supervisory Board. The Chairman of the Supervisory Board and the CEO met regularly for bilateral discussions about the progress of the company on a variety of matters. Our members also individually interacted with members of the Board of Management and with senior management outside the formal Supervisory Board meetings. Whenever one of our members wanted to be informed on a specific topic, he or she requested this, and follow-up was provided by the Board of Management or senior management.

Last year, the Supervisory Board discussed a range of topics, including:

- **Strategy and innovation**
  We had in-depth discussions on industry trends as well as opportunities and risks related to the Signify business model. In September 2019, we had a dedicated session to discuss market developments and the competitive landscape, the company's current position and the company's strategy for the coming years. This was followed by a session in November in which the company presented its strategic plan together with its longer-term financial objectives. On an ongoing basis, we have reviewed, challenged and advised the Board of Management on the company's implementation of its strategic plan and strategic priorities. Part of the meeting in November was spent in one of the company's 3D printing facilities. The company's innovation department guided the Supervisory Board around the facility and, at its premises in Eindhoven, gave demonstrations of future technologies being developed.

- **Business performance**
  During each Supervisory Board meeting, we discussed the company's business performance. These included updates on the company's financial performance, business transformation, cost reduction initiatives, developments in working capital, the level of inventories and collection of receivables. The Supervisory Board also had in-depth sessions to review and discuss developments in specific markets such as the Kingdom of Saudi Arabia and India.

- **Financial reporting**
  We discussed the quarterly results and the (semi-)annual financial statements for 2019, including related reports from the internal and external auditors and non-financial information. The Board of Management provided us with updates and feedback from investors and other stakeholders following each publication of financial results.

- **Organizational Structure**
  The Supervisory Board reviewed the company's organizational structure and supported the proposal by the Board of Management to adapt the organizational structure. This resulted in the announcement in January 2020 in which the company made public its intention to move to three divisions (i) Division Digital Solutions, (ii) Division Digital Products and (iii) Division Conventional Products.

- **Risk management and internal controls**
  We also discussed the company's risk management and internal controls, including any significant changes and improvements thereto. The Supervisory Board had a dedicated session on the company's digital strategy. We also discussed and reviewed the company's cyber security related risks and steps it is taking to mitigate such risks. For more information on risk management and the company's business control framework, refer to chapter 12, Risk factors and risk management, of this Annual Report.

- **M&A**
  In 2019, a substantial amount of the Supervisory Board's time was dedicated to various acquisitions. The Supervisory Board held multiple additional calls and meetings to review these projects. One of these transactions was the acquisition of a 51% stake in Klite Lighting. This China-based company is one of the leading providers of high-quality, cost-efficient LED lamps and luminaires. The acquisition was announced in July 2019 and closed in October 2019. A very significant transaction was the acquisition of Cooper Lighting Solutions, which was announced in October 2019. The closing of the transaction is still subject to regulatory approvals and other customary conditions and is expected to take place in the first quarter of 2020.

- **Operating plan for 2020**
  We discussed and approved the company's targets for 2020 within the context of its 2020 operating plan.

- **Capital allocation policy**
  We reviewed the capital allocation policy of the company. In this context we also discussed expectations as to cash

generation, distributions, investments in innovation and M&A as well as implications for credit ratings. We discussed the company's financing structure and approved the refinancing of the company's term loans and revolving credit facility. We also discussed and approved the company's dividend proposal.

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

- **Sustainability**
  In 2019, we were updated on the company's sustainability and corporate social responsibility programs and progress made towards their respective goals. We are very pleased with the commitment and results on these programs and are proud that the company is recognized as a role model and leader in these areas. We also discussed stakeholders' expectations and strategic topics for Signify to work on as we move forward. More information is provided in chapter 16, Sustainability statements, of this Annual Report.

8.3 Key activities of the Supervisory Board committees in 2019

8.3.1 Audit Committee

The Audit Committee assists the Supervisory Board in fulfilling its supervisory responsibilities in a number of ways, including ensuring the integrity of the company's financial statements and reviewing the company's internal controls. Jill Lee (chair), Gerard van de Aast and Eelco Blok are members of this committee.

The Audit Committee met five times in 2019, upon the conclusion of each quarter and additionally in December. A combined meeting of the Supervisory Board and the Audit Committee took place in February 2019 to review and approve the company's 2018 annual report. The Audit Committee reported its findings to the full Supervisory Board after every meeting. Generally, the CEO, CFO, Group Controller, Head of Internal Audit, Chief Legal Officer and external auditor (Ernst & Young Accountants LLP) also attend these meetings.

In 2019, the Audit Committee, as part of its standing agenda, had in-depth discussions on the company's periodic financial reports and related press releases. It also discussed with the Head of Internal Audit and the Board of Management major areas of risk and other attention points as identified through internal audits, and progress and effectiveness of associated mitigation actions. The Audit Committee reviewed the internal audit plan and programs for each quarter. It also reviewed the internal audit charter, yearly audit plan (its scope, coverage and relation to that of the external audit plan), as well as the functioning, budget, staffing, independence and organizational structure of the internal audit function. Finally, the committee discussed, with the Board of Management and the Head of Internal Audit, the company's business control framework and any significant changes and improvements thereto.
This framework sets the standard for risk management and business controls in the company. The Audit Committee reported on these matters to the full Supervisory Board.

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

As also reflected in the company's Auditor Policy, the external auditor is appointed for a maximum period of four years. Ernst & Young Accountants LLP was appointed for four years in 2016, with 2019 being the fourth year of their current engagement.
In 2019 the Committee, jointly with management, conducted a thorough assessment of the performance of the external auditor. Following that assessment, the Committee resolved to recommend to the Supervisory Board the re-appointment of Ernst & Young Accountants LLP for a period of three years (2020 - 2022).
This resulted in the Supervisory Board proposing and recommending the re-appointment of Ernst & Young Accountants LLP as the company's external auditor at the upcoming 2020 Annual General Meeting of Shareholders. More information will be included in the agenda and explanatory notes thereto.

8.3.2 Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee is responsible for the review of selection criteria and appointment procedures for the Board of Management, certain other key management positions as well as the Supervisory Board. The committee is also charged with reviewing the corporate governance of the company (for more information on corporate governance refer to chapter 10, Corporate governance, of this Annual Report). Arthur van der Poel (chair), Rita Lane and Eelco Blok are members of this committee. The committee met seven times in 2019 and reported its findings to the full Supervisory Board after every meeting.

During its meetings, the committee discussed changes in key personnel positions, succession planning as well as the functioning of its members, and legislative developments as well as the Supervisory Board's performance evaluation procedures. In addition, the committee discussed the company's corporate governance structure and discussed the committee's own charter.

The committee devoted specific attention to the size, composition and diversity of the Supervisory Board. Following a selection process, the committee proposed the Supervisory Board to nominate Frank Lubnau and Pamela Knapp for appointment as members of the Supervisory Board. The Supervisory Board subsequently decided to propose the appointment of Frank Lubnau and Pamela Knapp as members of the Supervisory Board at the Annual General Meeting of Shareholders to be held in May 2020 (AGM). Mr. Lubnau attended several Supervisory Board meetings as an observer.

The membership terms of two members of the Supervisory Board, Arthur van der Poel and Rita Lane, end in 2020. The committee dedicated time on the re-appointment of these members. This resulted in the proposal by the Supervisory Board to re-appoint both these members at the General Meeting of Shareholders to be held in May 2020. As Arthur van der Poel and Rita Lane are both members of this committee, neither took part in the decision-making process concerning their subsequent re-appointment proposals.

Supervisory Board Skills and Expertise matrix

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

Skill/experience item	Arthur van der Poel	Gerard van de Aast	Rita Lane	Jill Lee	Eelco Blok
CEO role	√	√			√
Recent executive role			√	√	√
Industrial experience	√	√	√	√	
Finance, expert level		√		√	
Projects		√		√	√
Buildings/infrastructure		√			√
Business transformation	√	√			√
IT, IT risks, cybersecurity			√	√	√
Technology/innovation	√		√		√
Logistics, supply chain			√	√	
Geographies	Europe	Europe / USA	USA	Asia / Europe	Europe
Diversity elements: Gender, age, nationality	Male 71 Dutch	Male 62 Dutch	Female 57 American	Female 56 Singaporean	Male 62 Dutch

The committee also devoted attention to the size, composition and diversity of the Board of Management. The membership terms of two members of the Board of Management, Eric Rondolat and René van Schooten, end in 2020. Following a proposal by the committee, the Supervisory Board decided to nominate for re-appointment Eric Rondolat as CEO and Chairman of the Board of Management for another four years and René van Schooten as a member of the Board of Management for another year. Both these members of the Board of Management will be proposed to be re-appointed at the General Meeting of Shareholders to be held in May 2020.

Following a review and assessment, the committee proposed the Supervisory Board to nominate Maria Letizia Mariani for appointment as member of the Board of Management. The Supervisory Board subsequently decided to propose the appointment of Maria Letizia Mariani as a member of the Board of Management at the Annual General Meeting of Shareholders to be held in May 2020. In addition to her role as lead Strategy and Marketing, she will take over the responsibility for the Business Group Lamps. In January 2020, Stéphane Rougeot announced his decision to leave the company. René van Schooten will take over the role of CFO as of March 1, 2020 until a new CFO has been appointed. The Committee has started a selection process to find a replacement for that position.

We believe that it is of strategic importance that our Board of Management and Supervisory Board are composed in line with Dutch and international corporate governance best practices and that they have the expertise needed for a good understanding of current affairs and long-term risks and opportunities related to the company's business, taking into account our objectives that promote diversity at board level. In 2019, the Board of Management's gender diversity did not meet our policy targets. At the time of the IPO, the CEO and business leader Lamps of the Lighting business of Royal Philips were appointed as board members of the company. These appointments recognize the importance of continuity of the business while transforming and starting to operate as a standalone company. The departure of Stéphane Rougeot and the proposed appointment of Maria Letizia Mariani, subject to approval by the Annual General Meeting of Shareholders, will result in the Board of Management meeting the gender diversity targets. The Supervisory Board meets the gender diversity targets. For any potential future vacancies of the Board of Management and the Supervisory Board, the company will continue to take into account the profile and all diversity objectives. We note that there may be various pragmatic reasons, such as other relevant selection criteria and the availability of suitable candidates within Signify, that could play a role in the achievement of our diversity targets. For more details on the profile including diversity of the Board of Management and Supervisory Board, please refer to chapter 10, Corporate governance, of this Annual Report. For more information on diversity and inclusion in the company, please refer to sub-section 16.3, Diversity & Inclusion, of this Annual Report.

8.3.3 Remuneration Committee

The Remuneration Committee is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and certain other key management positions. Gerard van de Aast (chair), Arthur van der Poel and Rita Lane are members of this committee. In performing its duties and responsibilities, the Remuneration Committee is assisted by an external consultant and an in-house remuneration expert. Currently, no member of the Remuneration Committee is a member of the management board of another listed company.

The Remuneration Committee met four times in 2019. The committee also consulted with the CEO, the Board of Management and certain other key management employees. Following those consultations, it prepared decisions and advised the Supervisory Board.

Matters discussed by the Remuneration Committee in 2019 included a remuneration scenario analysis, the results from a benchmark on the remuneration levels of the company's Board of Management, interim performance results and the internal pay ratio. In 2019, the committee also initiated a review of the remuneration policies for both the Board of Management and the Supervisory Board, supported by the rewards experts of the company and an external advisory firm considering, amongst others, market- and best practices, the Dutch Corporate Governance Code and the Dutch implementation of the revised European Shareholders Rights Directive (SRD II). This resulted in some changes being proposed to the company's remuneration policy for the Board of Management. The remuneration policies for the Board of Management and the Supervisory Board will be submitted for adoption by the General Meeting of Shareholders to be held in May 2020. For details of the proposed changes we refer to chapter 9, Remuneration report, of this Annual Report.

Please also refer to chapter 9, Remuneration report, of this Annual Report, for further information on the remuneration policy for the Board of Management and how it was implemented in 2019.

8.4 Performance evaluation

We performed an evaluation of the performance of the Board of Management and of the Supervisory Board and its committees in 2019. The Board of Management performed a self-evaluation of its functioning and the functioning of its individual members. The results of this evaluation were reported to the Chairman and discussed in the Supervisory Board.

As we are reaching the fourth year since the company's listing, and as the first four-year membership terms of two Supervisory Board members come to an end, we engaged an external party to facilitate this year's annual Supervisory Board self-evaluation. The selected external party conducted interviews with each individual Supervisory Board member, Board of Management member, with the General Secretary and with the lead partner of the company's external auditor. The interviews were followed by a questionnaire which evaluates the functioning of the Supervisory Board and its committees. The objective of the questionnaire was to gain better insight into the functioning of the Supervisory Board, to identify strengths that we want to keep and to identify matters which the Supervisory Board or company can improve. The questionnaire addressed the Supervisory Board's group dynamics, social interactions, discussion and decision-taking and hierarchy. The conclusions from the interviews and the questionnaires were discussed in a plenary session with the Supervisory Board only, and in a plenary session with the Supervisory Board and the Board of Management together. During those sessions we focused on the current and the desired level of involvement of the Supervisory Board relating to different aspects of the company such as the company's purpose and values, strategy, performance, governance and stakeholder management. This was followed by an in-depth discussion on the quality of the interaction among the Supervisory Board members themselves, and between the Supervisory Board and the company's management. These sessions provided valuable insights on how we evolved as a team over the last few years. The Supervisory Board experienced a constructive working environment in 2019 and formulated attention points and actions for the year to come.

8.5 Financial statements 2019 and dividend

Signify's Consolidated and Company financial statements for 2019, 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 the General Meeting of Shareholders to adopt the financial statements for 2019. We likewise recommend to shareholders that they adopt the proposal by the Board of Management to make a distribution of EUR 1.35 per ordinary share in cash, from the 2019 net income.

8.6 Appreciation

We would like to express our thanks to the Board of Management and to all employees, for their dedication and hard work for the company in 2019. We would also like to thank Stéphane Rougeot for his contributions as CFO and for being instrumental in driving the many improvements at Signify.

February 25, 2020

Supervisory Board
Arthur van der Poel
Gerard van de Aast
Eelco Blok
Rita Lane
Jill Lee

9 Remuneration report

Introduction

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

Signify's value creation model:
The value created by Signify goes beyond financial performance alone. Our approach is to optimize value through financial, environmental and social resources. Our activities and our way of doing business impact customers, employees, investors and society at large. Signify expresses these impacts in monetary terms in chapter 3.3, Value creation model, of this annual report.

The current remuneration policy for the Board of Management was adopted by the Annual General Meeting of Shareholders (AGM) in 2017. The remuneration for the Supervisory Board was adopted at the time of the IPO in 2016. The effectuation of these policies in 2019 is discussed in part 9.3 and 9.4 of this remuneration report.

In 2019, the Remuneration Committee initiated a review of the remuneration policy both for the Board of Management and for the Supervisory Board. The Supervisory Board will submit both policies for adoption by the shareholders at the AGM to be held in May 2020.

The report included in this Chapter 9 constitutes the remuneration report within the meaning of Section 2:135b of the Dutch Civil Code.

9.1 Remuneration policy of the Board of Management

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 for pursuing the company's purpose and long-term strategic objectives, whilst taking the interest of all the company's stakeholders into account.
- Remuneration levels are to be competitive and in line with market practice of comparable companies, and support a pay-for-performance philosophy.
- During the policy design and review process, stakeholder feedback and legal provisions, including the Dutch Corporate Governance Code are taken into consideration.

The remuneration package 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 are together referred to as the "total direct compensation". The targeted total direct compensation is around the median level of various reference groups, indices and markets and takes the internal pay ratios within the company into account.
The reference groups are established based on industry, ownership type, geographical presence, business characteristics and scope parameters.

The Board of Management's total direct compensation for 2019 is listed in the table below.

Total direct compensation Board of Management 2019 in EUR

	Base compensation/ salary	Annual cash incentive (on-target)	Long-term equity-based component (on-target)
E.H.E. Rondolat	871,000	80% of annual base	100% of annual base
S.L.A. Rougeot	570,000	60% of annual base	80% of annual base
C.L. van Schooten	569,000	60% of annual base	80% of annual base

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

9.1.1 Base salary

The base salary of the members of the Board of Management compensates for the individual's experience, skills, duties, responsibilities and his or her contribution within Signify. The base salary of each member of the Board of Management is a fixed cash compensation paid on a monthly basis. The Supervisory Board determines the base salary and may, at its discretion, apply an increase in accordance with the remuneration policy.

9.1.2 Variable remuneration

The variable remuneration of the members of the Board of Management consists of an annual cash incentive and a long-term equity-based incentive.
The design of the incentives aims to achieve a balance between short-term objectives and long-term value creation and sustainable performance. Variable pay is based on both financial and non-financial performance measures. In selecting performance measures, their respective weights and targets for a performance period, the following is considered:

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

9.1.3 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 on-target annual incentive level for the CEO is set at 80% of base salary, while for the other members of the Board of Management the on-target annual incentive is set at 60% of their base salary. For each member, the maximum annual incentive is capped at twice the on-target percentage (minimum is 0%). 80% of the annual cash incentive is related to financial performance measures and 20% to team and individual performance measures.

The Supervisory Board can select annually two or three financial performance measures (and determine their relative weightings) from the following list: Comparable Sales Growth (CSG), Adjusted Earnings before Interest Taxes and Amortizations (Adj. EBITA), Average Working Capital (AWoCa), Free Cash Flow (FCF), Return on Capital Employed (RoCE) and Net Income. These measures have the meaning as used or defined in this annual report, subject to minor adjustments if required in order to provide a better indicator of the performance of the Board of Management. Adj. EBITA, AWoCa and Net Income are measured as a percentage of sales.

The possibility to select annually 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.

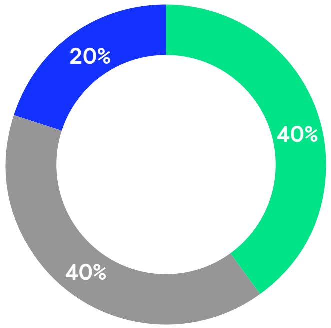
The target definition includes target intervals and correlating pay-out schemes, being defined incremental steps in performance and respective pay-out.
In addition, a minimum threshold for the achievement of financial performance measures applies, below which there will be no pay-out. Following the end of the relevant performance period, actual performance to the targets set will be assessed. On that basis, the achievement per performance measure and target will be determined.

9.1.4 Long-term equity-based incentive

Members of the Board of Management are eligible for a long-term equity-based incentive under the Signify Long-term Incentive Plan (LTI Plan). The objective of the long-term incentive is to link pay with long-term sustainable value creation.

In addition to the Board of Management, another approximately 600 employees globally are eligible for participation in a similar long-term incentive plan. The main characteristics of the long-term incentive plan for the Board of Management are as follows.

The annual on-target grant value is a percentage of the base salary. For the CEO, the annual on-target grant value is set at 100% of base salary and for the other members of the Board of Management at 80% of base salary.



Performance measures

- Relative TSR
- Free Cash Flow
- Sustainability

Key features:
- The long-term incentive is granted in performance shares only and are conditionally granted annually.
- The vesting of performance shares is conditional upon the achievement of performance conditions measured over a period of three financial years.
- Performance is measured using three performance measures: relative total shareholder return (40%), free cash flow (40%) and sustainability (20%).
- Pay-out per performance measure can vary between 0% and 200%.

Relative TSR

The vesting of 40% of the shares granted is subject to a TSR condition. Relative TSR measures the share price growth plus dividends paid over the three-year performance period. Relative TSR calculations are conducted by using the following approach: Return index data are averaged over a three-month period (of daily data) preceding the start and the end of the measurement period. This performance is expressed as a percentage. This percentage is compared to the TSR performance of companies included in the peer group specifically compiled for this purpose.
The TSR performance is determined for each company in the peer group and,
the performances are ranked from top to bottom. Signify's position in the ranking, together with the pay-out curve, determines the pay-out level. Currently, the peer group consists of the following companies:

TSR Peer Group

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

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

Performance-incentive zone for TSR in % of grant value

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

Free cash flow

The vesting of another 40% 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 the remaining 20% 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 ambitious and adjusted regularly, the assessment of the performance is at the discretion of the Supervisory Board.
The discretionary decision will use tracked performance as input.

9.1.5 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 after the grant date.

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.

9.1.6 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 107,593 (2019).
- Members of the Board of Management pay 2% of the pension premium (in line with all other Signify employees In the Netherlands) up to the maximum pensionable salary of EUR 107,593 (2019).
- The flex pension plan has a target retirement age of 68 (in 2019) 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 107,593 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 voluntarily.
- A temporary gross transition allowance, for a maximum period of eight years (first five years in full; year 6: 75%; year 7: 50%, year 8: 25%). The temporary gross transition allowance only applies to members of the Board of Management who were employed before January 1, 2015 and still participated in the former executive pension plan, before the change to the flex pension plan per January 1, 2015 with the capping of pension accruals and increase of pensionable age in line with the retirement age for state pension (AOW). The level of the allowance is based on the age and salary of the Board Member on December 31, 2014.

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. For more details, see 9.3, Effectuation of the remuneration policy of the Board of Management in 2019.

9.1.7 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.

9.1.8 Additional arrangements

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

9.1.9 Contractual arrangements

Members of the Board of Management are engaged by a service contract (‘overeenkomst van opdracht’) with a four-year term 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 period of four years, subject to re-appointment by the General Meeting of Shareholders. Termination of the services contract is subject to a notice period of six months for either party. The terms and conditions of these service agreements have been aligned with the relevant Corporate Governance Code provisions.

9.1.10 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 annual base salary.

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

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

9.1.11 Loans

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

9.2 Remuneration policy of the Supervisory Board

The remuneration of the individual members of the Supervisory Board, as well as the additional remuneration for its Chairman 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 (chairman/vice chairman/other board members), an additional fee for the function of chair or member of committees and compensation 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	
Chairman	110,000
Vice Chairman	85,000
Member	75,000
Committee fees	
Audit Committee	
Chairman	22,500
Member	13,000
Remuneration Committee	
Chairman	15,000
Member	10,000
Nomination Committee	
Chairman	15,000
Member	7,500
Allowance for travel	
Intercontinental	5,000
Continental	2,500

9.3 Effectuation of the remuneration policy of the Board of Management in 2019

The table below reflects the total remuneration as well as the remuneration costs of each of the members of the Board of Management in 2019.

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

	Base compensation/ salary	Annual incentive [1]	Performance shares target value at grant	Performance shares costs [2]	Restricted share rights costs [3]	Pension allowances	Pension scheme costs	Other compensation [4]	Total remuneration [6]	Total remuneration costs [7]
2019										
E.H.E. Rondolat	871,000	522,600	871,000	1,041,725	-	320,356	26,380	40,043	2,651,379	2,822,104
S.L.A. Rougeot	570,000	256,500	456,000	496,252	-	115,602	26,380	104,853	1,529,335	1,569,587
C.L. van Schooten	569,000	256,050	455,200	536,275	-	203,588	26,380	24,291	1,534,509	1,615,584
	2,010,000	1,035,150	1,782,200	2,074,252	-	639,546	79,140	169,187	5,715,223	6,007,275
2018										
E.H.E. Rondolat	850,000	410,720	850,000	912,497	899	315,735	25,708	48,747	2,500,910	2,564,306
S.L.A. Rougeot	556,000	201,494	444,800	292,109	-	113,856	25,708	138,350 [5]	1,480,208	1,327,517
C.L. van Schooten	555,000	201,132	444,000	437,072	176	206,342	25,708	23,770	1,455,952	1,449,200
	1,961,000	813,346	1,738,800	1,641,678	1,075	635,933	77,124	210,867	5,437,070	5,341,023

1 The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.
2 Costs of performance shares (Signify and Royal Philips) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.
3 Costs of restricted share rights (Royal Philips only) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.Royal Philips restricted shares all vested prior to January 1, 2016. However, members of the Board of Management are entitled to receive premium shares if shares from restricted share rights release are kept for another 3 years. In 2018 E.H.E. Rondolat and C.L. van Schooten sold the Royal Philips premium shares they received. As a result, they do not hold any Royal Philips premium shares since.
4 The stated amounts mainly concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share 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.
5 Comparatives were revised to also include the housing allowance of EUR 94.288 for S.L.A. Rougeot that was accidentally not included in the table in Note 30 to the Consolidated financial statements for 2018.
6 The total remuneration consists of base salary, annual incentive, performance shares target value at grant, pension allowances, pension scheme costs and other compensation.
7 The total remuneration costs consists of base salary, annual incentive, performance shares costs and restricted shares costs (based on accounting standards IFRS), pension allowances, pension scheme

All remuneration was paid in accordance with the remuneration policy. For a discussion on how the various components and the remuneration as a whole contribute to the company's long-term value creation, please be referred to chapter 9.1, Remuneration policy of the Board of Management.

9.3.1 Base salary

The annual compensation of the members of the Board of Management was reviewed in 2019 as part of the regular remuneration review. The Remuneration Committee considered the input of the Board of Management members in setting their pay levels. The annual base salaries of the Board of Management were adjusted per January 1, 2019. The annual base salary of Eric Rondolat was set at EUR 871,000. The annual base salary of Stéphane Rougeot was set at EUR 570,000. The annual base salary of René van Schooten was set at EUR 569,000.

The increases were based on comprehensive benchmark studies versus several peer groups. Furthermore, the general increases for the employee base in the Netherlands as agreed in the collective labor agreement and the development of the pay ratios were taken into consideration.

9.3.2 Annual (cash) incentive

The financial performance measures used in the Annual Incentive to track performance over 2019 were Comparable Sales Growth, Adjusted EBITA (measured as a percentage of sales) and Free Cash Flow as the Supervisory Board considered these to ensure the best alignment with the company's strategy and financial objectives for the mid-term.

The financial targets for 2019 were set within the context of the medium-term objectives of the company.

Annual incentive realization 2019

	Performance measures	Weighting	Realized %		On-target % of annual base		Realized % of annual base (2019)	Realized annual incentive (in EUR)
E.H.E. Rondolat	Comparable Sales Growth	30%	0%					
	Adjusted EBITA	30%	50%					
	Free Cash Flow	20%	200%					
	Team and individual performance measures	20%	100%					
	Multiple achieved		75%	x	80%	=	60%	522,600
S.L.A. Rougeot	Comparable Sales Growth	30%	0%					
	Adjusted EBITA	30%	50%					
	Free Cash Flow	20%	200%					
	Team and individual performance measures	20%	100%					
	Multiple achieved		75%	x	60%	=	45%	256,500
C.L. van Schooten	Comparable Sales Growth	30%	0%					
	Adjusted EBITA	30%	50%					
	Free Cash Flow	20%	200%					
	Team and individual performance measures	20%	100%					
	Multiple achieved		75%	x	60%	=	45%	256,050

9.3.3 Long-term equity-based incentive

In 2019, performance shares were granted to the members of the Board of Management. These grants are governed by the Signify LTI Plan.

The performance share awards granted by Royal Philips for the last time in 2016 to two members of Signify's Board of Management vested in 2019.

The following tables provide an overview of both the Signify and Royal Philips performance shares awarded and held by the Board of Management.

Performance shares 2016-2019

	Grant date	Number of performance shares originally granted	Value at grant date (in EUR)	End of vesting period	Number of performance shares vested in 2019	Value at vesting date in 2019 (in EUR)
E.H.E. Rondolat	2016 [1,2]	36,080	880,000	2019	56,351	2,085,551
	2017 [3]	31,253	850,000	2020	n.a.	n.a.
	2018 [3]	28,103	850,000	2021	n.a.	n.a.
	2019 [3]	35,148	871,000	2022	n.a.	n.a.
S.L.A. Rougeot	2017 [3]	16,355	444,800	2020	n.a.	n.a.
	2018 [3]	14,708	444,800	2021	n.a.	n.a.
	2019 [3]	18,400	456,000	2022	n.a.	n.a.
C.L. van Schooten	2016 [1,2]	15,785	385,000	2019	24,653	912,408
	2017 [3]	16,325	444,000	2020	n.a.	n.a.
	2018 [3]	14,680	444,000	2021	n.a.	n.a.
	2019 [3]	18,370	455,200	2022	n.a.	n.a.

1 Dividend performance shares not included.
2 Shares under the Royal Philips Long-term Incentive Plan.
3 Shares under the Signify Long-term Incentive Plan.

Number of Signify and Royal Philips performance shares (holdings) in number of shares

	January 1, 2019	Awarded 2019	Awarded dividend shares 2019	Realized 2019	December 31, 2019	Vesting date
E.H.E. Rondolat	39,132 [1]	-	-	56,351	-	29.04.2019
	31,253 [2]	-	-	-	31,253	03.02.2020
	28,103 [2]	-	-	-	28,103	01.02.2021
	-	35,148 [2]	-	-	35,148	31.01.2022
S.L.A. Rougeot	16,355 [2]	-	-	-	16,355	03.02.2020
	14,708 [2]	-	-	-	14,708	01.02.2021
	-	18,400 [2]	-	-	18,400	31.01.2022
C.L. van Schooten	17,120 [1]	-	-	24,653	-	29.04.2019
	16,325 [2]	-	-	-	16,325	03.02.2020
	14,680 [2]	-	-	-	14,680	01.02.2021
	-	18,370 [2]	-	-	18,370	31.01.2022
Performance shares (holdings)	**177,676**	**71,918**	**0**	**81,004**	**193,342**	

1 Awarded under Royal Philips Long-term Incentive Plan before date of appointment as a member of the Board of Management.
2 Awarded under the Signify Long-term Incentive Plan.

At December 31, 2019, the members of the Board of Management held no options on Signify shares.

Realization of 2017 performance share grant

The three years performance period of 2017 performance share grant ended on December 31, 2019.
The payout results are as follows.

Relative TSR (40% weighting)

The TSR achieved by Signify during the performance period was 36.7%.
This positioned Signify as the 8th ranked company in the peer group shown in the following table, resulting in an achievement of 100%.

January 1, 2017 - December 31, 2019

Rank	Company	TSR Performance
1	Cree	87.5%
2	Honeywell	71.1%
3	Hitachi	55.9%
4	Eaton Corporation	49.7%
5	Schneider Electric	49.4%
6	Legrand	43.8%
7	Hubbell	40.0%
8	**Signify**	**36.7%**
9	ABB	10.3%
10	Johnson Controls	8.1%
11	Fagerhult	(4.7%)
12	Panasonic	(5.8%)
13	Toshiba	(5.8%)
14	Acuity Brands	(46.5%)
15	Zumtobel Group	(54.8%)

Free Cash Flow (40% weighting)

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

	Pay-out	Free Cash Flow (in mEUR)	As % of sales
Below threshold	0%	< 1,205	< 5.6%
Threshold	40%	1,205	5.6%
Target	100%	1,355	6.3%
Maximum	200%	1,505	7.0%

The LTI Plan free cash flow target setting was based on anticipated sales figures. Over the three-year performance period, an amount of EUR 1,254 million free cash flow (excluding pension de-risking and IFRS 16) was generated, representing 6.4% of sales. In light thereof, the Supervisory Board determined the LTI Plan free cash flow achievement as 80%.

Sustainability (20% weighting)

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

	Target 2019	Result 2019
Sustainable revenues	80.0%	82.5%
LED lamps & luminaires delivered	1.67 billion (cumulative from 2015)	2.344 billion
Carbon footprint	385 kilotonnes CO_2 (annual cumulative)	363 gross kilotonnes
Waste to landfill	1.35 kilotonnes (annual cumulative)	0.7 kilotonnes
Safe & Healthy Workplace	TRC of < 0.39	TRC of 0.32
Sustainable Supply Chain	90% performance rate	99% performance rate

In view of the above, the following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2017 grant of performance shares:

	Achievement	Weighting	Vesting level
TSR	100%	40%	40%
Free cash flow	80%	40%	32%
Sustainability	200%	20%	40%
Total			**112%**

9.3.4 Share ownership

Signify Shares held by Board members in number of shares

	December 31, 2018	December 31, 2019
E.H.E. Rondolat	44,000	44,000
S.L.A. Rougeot	10,000	10,000
C.L. van Schooten	12,500	12,500

9.3.5 Pension

The accumulated annual pension entitlements and the pension costs of individual members of the Board of Management are as follows (in EUR):

Accumulated annual pension entitlements and pension-related costs in EUR

	Age at December 31, 2019	Accumulated annual pension as of December 31, 2018 [1]	Total pension-related costs 2018 [2]	Accumulated annual pension as of December 31, 2019 [1]	Total pension-related costs 2019 [2]
E.H.E. Rondolat	53	33,907	341,443	38,379	346,736
S.L.A. Rougeot	51	3,903	139,564	5,859	141,982
C.L. van Schooten	60	208,929	232,050	228,407	229,968
Pension costs			713,057		718,686

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

When pension rights are granted to members of the Board of Management, necessary payments (if insured) and all necessary provisions are made in accordance with the applicable accounting principles. In 2019, no (additional) pension benefits were granted to former members of the Board of Management.

9.3.6 Change of remuneration and company performance

The table below reflects the annual change of remuneration of the members of the Board of Management, the employee average remuneration and Signify's closing share price at year-end. The information is provided over the full financial years since the company's IPO in May 2016.

BoM total remuneration versus employee average remuneration in EUR

	2017	2018	2019
Employees [1]	64,550	61,264	60,601
E.H.E. Rondolat [2]	2,811,200	2,475,202	2,624,999
Pay ratio	44x	40x	43x
S.L.A . Rougeot [2]	1,619,292	1,454,500	1,502,955
Pay ratio	25x	24x	25x
C.L. van Schooten [2]	1,577,654	1,430,244	1,508,129
Pay ratio	24x	23x	25x
Closing share price on last business day December	30.6	20.47	27.86

1 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.
2 BoM total remuneration consists of base salary + annual cash incentives (related to the performance in the years reported which are paid out in the subsequent years) + long-term incentives at fair value grant + pension allowances + other compensation (it excludes pension costs).

9.3.7 Signify's internal pay ratio

In line with the Dutch Corporate Governance Code, Signify takes into account the internal pay ratios within the organization when formulating the remuneration policy and determining the remuneration of individual members of the Board of Management.

The pay ratios over the years 2017 through 2019 are reflected in the table above.

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).

Signify's internal pay ratio is calculated as the total CEO remuneration divided by the employee average remuneration.
For purposes of this calculation:

- Total CEO remuneration consists of the following components for the full year 2019: base salary EUR 871,000 (2018: EUR 850,000) + annual cash incentive (related to the performance in the year reported, paid out in the subsequent year) EUR 522,600 (2018: EUR 410,720) + long-term incentives at fair value at grant EUR 871,000 (2018: EUR 850,000) + benefits EUR 360,399 (2018: EUR 364,482). All figures are full year, based on the information provided in 9.3, Effectuation of the remuneration policy of the Board of Management in 2019;
- 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.

Consequently, Signify's calculated pay ratio in 2019 is 43 (2018: 40), implying that the CEO pay is 43 (2018: 40) times the average pay of an employee.

The pay ratios are reasonably stable. Lower pay ratio in 2018 was predominantly caused by a lower annual incentive pay-out. A lower annual incentive pay-out has less impact at the lower levels in the organization as employees have a relative lower variable pay component. The impact of the company performance on the other variable pay component (the long-term incentive) will only become noticeable as soon as the 2017 long-term incentive grant will vest, three years after the vesting date (early 2020), in line with the remuneration policy.

9.3.8 Pool size

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

9.4 Effectuation of the remuneration policy of the Supervisory Board in 2019

The table below reflects the total remuneration of each of the members of the Supervisory Board.

Remuneration of Key Management - the Supervisory Board in EUR

	Membership	Committees	Other compensation [5]	Total
2019 [1]				
A.P.M. van der Poel	110,000	25,000	2,500	137,500
G. van der Aast	85,000	28,000	0	113,000
E. Blok	75,000	20,500	0	95,500
R.S. Lane	75,000	17,500	29,189	121,689
J. Lee	75,000	22,500	17,500	115,000
	420,000	113,500	49,189	582,689
2018 [1]				
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]	56,250	12,815	5,000	74,065
C.J.A. van Lede [3]	28,125	11,000	0	39,125
R.S. Lane	75,000	18,625	27,500	121,125
J. Lee	75,000	20,125	20,000	115,125
A. Bhattacharya [4, 6]	-	-	-	-
	429,375	**115,565**	**62,500**	**607,440**

1 The amounts mentioned in this table are excluding VAT.
2 Appointment as a member of the Supervisory Board in AGM 2018. The remuneration includes the observer period.
3 Stepped down as member of the Supervisory Board as per May 15, 2018.
4 Unsalaried.
5 The amounts mentioned under other compensation relate to the fee for (inter-)continental travel.
6 Stepped down as member of the Supervisory Board per December 31, 2018.

At December 31, 2019, the members of the Supervisory Board held no Signify shares, options on Signify shares nor other Signify securities (2018: nil).

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

Supervisory Board remuneration 2017 – 2019

	2017[1]	2018[1]	2019[1]
A.P.M. van der Poel	135,000	140,000	137,500
G. van der Aast	109,391	118,000	113,000
E. Blok[2]	-	74,065	95,500
R.S. Lane	128,625	121,125	121,689
J. Lee	103,000	115,125	115,000
C.J.A. van Lede[3]	109,275	39,125	-
F.A. van Houten[4, 5]	0	-	-
A. Bhattacharya[4, 6]	0	0	-

1 The amounts mentioned in this table are excluding VAT.
2 Appointment as a member of the Supervisory Board in AGM 2018. The remuneration includes the observer period.
3 Stepped down as member of the Supervisory Board as per May 15, 2018.
4 Unsalaried.
5 Stepped down as member of the Supervisory Board per December 31, 2017.
6 Stepped down as member of the Supervisory Board per December 31, 2018.

The main drivers of the overall compensation of members of the Supervisory Board are their role on the board and committees, number of meetings and required travel to attend in person. In accordance with the remuneration policy for the Supervisory Board as well as the role of a Supervisory Board under the Dutch corporate governance, its members did not receive variable remuneration based on the performance of Signify

9.5 Remuneration outlook 2020

In 2019, the Remuneration Committee initiated a review of the remuneration policy both for the Board of Management and for the Supervisory Board. The Supervisory Board will propose both policies for adoption by the shareholders at the AGM to be held in May 2020.

9.5.1 Base salary

The Supervisory Board determines the base salary and may, at its discretion, apply an increase. The annual compensation of the members of the Board of Management was reviewed in 2019 as part of the regular remuneration review.

For 2020 it was decided to adjust the base salary levels for the members of the Board of Management by 2.5% per January 1, 2020 and by 1% per April 1, 2020 similar to the increases as agreed under the collective labor agreement for employees in the Netherlands.

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

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

9.5.2 Annual (cash) incentive

For 2020 the Supervisory Board has decided to select the same financial performance measures and weighting as used in previous years: CSG (30%), Adjusted EBITA (30%) and Free Cash Flow (20%).

9.5.3 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 became the new company name of Philips Lighting on May 15, 2018.

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

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

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

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

10.1 Signify organization

Currently, Signify's business is organized and managed on a functional basis by technology and end-markets through four operating Business Groups: Lamps, LED, Professional and Home. The Business Groups are responsible for the development of their strategy, product portfolio and the production and sourcing of their products.

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

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

In January 2020, the company announced that it intends to move from the current four Business Groups to three Divisions: Division Digital Solutions, Division Digital Products and Division Conventional Products. The changes are expected to take effect in the second quarter of 2020 and are subject to Works Council proceedings, depending on local legislation.

10.2 Board of Management

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

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

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

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

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

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

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

Appointment and composition

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

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

The composition of the Board of Management follows the profile which aims for an appropriate combination of knowledge and experience among its members, encompassing marketing, manufacturing, technology, financial, economic, social & environmental, quality & regulatory and legal aspects of international business and society, in relation to the global character of its business. The size of the Board of Management may vary over time, as considered appropriate to support its profile.

Remuneration

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

Diversity

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

In view of the above, Signify aims for the Board of Management and the Supervisory Board to be composed of members that bring a diversity of skills and expertise relevant for achieving the company's strategic and business objectives, different views and perspectives as well as different backgrounds (nationality, educational, working experience or otherwise), and that at least 30% are men and at least 30% are women. The latter is in line with Dutch legislation that was effective until December 31, 2019. Recently, the Dutch government announced to introduce legislation requiring at least 30% of the seats of the supervisory boards of listed companies being held by men, and at least 30% by women, in due time.

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

Conflicts of interest

Members of the Board of Management or Supervisory Board shall not participate in the discussions and decision-making process on a subject or transaction which they have a direct or indirect personal conflict of interest or have a conflict of interest within the meaning of the Dutch Corporate Governance Code. Relevant matters relating to conflicts of interests, if any, must be approved by the Supervisory Board and shall be mentioned in the Annual Report for the financial year in question. No legal acts as referred to above occurred during the financial year 2019.

Outside directorships

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

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

10.3 Supervisory Board

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

Appointment and composition

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

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

In 2019, the Supervisory Board consisted of five members, all being independent. The composition of the Supervisory Board follows the profile which aims for an appropriate combination of knowledge and experience among its members, encompassing marketing, manufacturing, technology, financial, economic, social & environmental, quality & regulatory and legal aspects of international business and society, in relation to the global character of its business. The size of the Supervisory Board may vary over time, as considered appropriate to support its profile. The Supervisory Board aims to have one or more members with an executive or similar position in business or society no longer than five years ago. The composition of the Supervisory Board shall be in accordance with the best practice provisions on independence of the Dutch Corporate Governance Code as well as Dutch law restrictions on the overall number of supervisory positions that a member of the Supervisory Board may hold. Each member shall be capable of assessing the broad outline of the overall management of the company.

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

Remuneration

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

Independence of the Supervisory Board

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

Supervisory Board Committees

The Supervisory Board has established three committees: The Audit Committee, the Corporate Governance and Nomination & Selection Committee and the Remuneration 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 the year is set out in chapter 8, Supervisory Board report, of this Annual Report.

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

Audit Committee

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

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

Corporate Governance and Nomination & Selection Committee

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

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

Remuneration Committee

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

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

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

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

10.4 General Meeting of Shareholders

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

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

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

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

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

The authorized share capital of the company amounts to EUR 6 million, divided into 300 million ordinary shares with a nominal value of one eurocent each and 300 million preference shares also with a nominal value of one eurocent each. On December 31, 2019, 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 pre-emptive rights if designated to do so by the General Meeting.

At the AGM held on May 14, 2019, the General Meeting resolved to authorize the Board of Management for a period of 18 months, effective as of May 14, 2019, to issue shares or grant rights to acquire ordinary as well as to restrict or exclude the pre-emptive rights accruing to shareholders, in each case up to a maximum of 10% of the issued share capital as at May 14, 2019 and subject to approval from the Supervisory Board. At the same time, the Board of Management was authorized to acquire shares in the company up to 10% of the issued share capital as at May 14, 2019 plus an additional 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction purposes.

Anti-takeover provisions and change of control

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

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

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

If the foundation exercises the call option, the company issues such number of preference shares as for which the foundation exercised its call option. No preference shares had been issued as of December 31, 2019. In addition, the foundation has the right to file a petition with the Enterprise Chamber of the Amsterdam Court of Appeal to commence an inquiry procedure within the meaning of section 2:344 Dutch Civil Code.

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

As of December 31, 2019 the board of the foundation was composed as follows: Jos Streppel (chair), Sietze Hepkema and Jan Willem Baud.

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

The company is not a party to any material agreement that takes effect, alters or terminates upon a change of control of the company following a take-over bid as referred to in section 5:70 of the Dutch Financial Markets Supervision Act, other than the credit agreement entered into with a syndicate of financial institutions which established term loans and a revolving credit facility, the bridge facility agreement for the acquisition of Cooper Lighting Solutions entered into with a syndicate of financial institutions and the Trade Mark License Agreement entered into with Royal Philips. The credit agreement and the bridge facility agreement include 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.

10.5 External auditor

Under Dutch law, the external auditor of the company is appointed by the General Meeting. In accordance with the Dutch Corporate Governance Code and Regulation (EU) 537/2014, the Supervisory Board selects and nominates an external auditor for appointment, upon advice by the Audit Committee. The Supervisory Board and the Audit Committee assess the functioning of the external auditor, taking the observations from the Board of Management into account. The General Meeting appointed Ernst & Young Accountants LLP as external auditor of the company for the financial years 2016 through 2019. The agenda for the upcoming Annual General Meeting of Shareholders will include a proposal to re-appoint Ernst & Young Accountants LLP as external auditor of the company for the years 2020 through 2022.

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

Auditor independence

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

Prohibition on non-audit services

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

10.6 Dutch Corporate Governance Code

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

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

11 Investor relations

11.1 Shareholder engagement

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

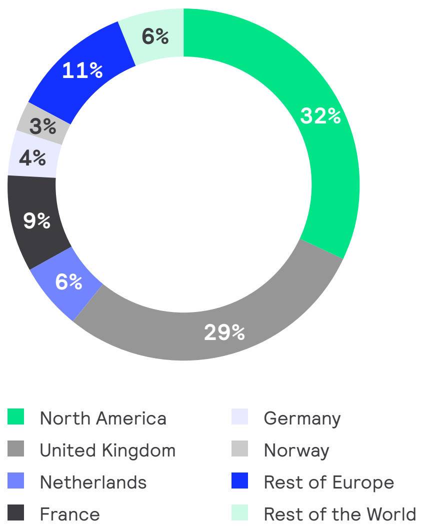
In 2019, Signify hosted around 70 conference calls and around 190 investor meetings through 21 roadshow days, 12 investor conference days and in-house meetings, thereby reaching around 220 unique investment institutions and covering more than 70% of its shareholder base, excluding passive funds. As part of this engagement, the company met at least twice with 9 of its largest 10 shareholders, excluding passive funds, through at least 28 meetings and conference calls.

Signify has an active investor relations approach aimed at supporting the company's long-term ambitions by keeping existing and potential shareholders well-informed about its strategy and latest operational and financial developments. Signify releases a full set of financial results on a quarterly basis. Each quarter, the company also organizes conference calls for research analysts and institutional investors to discuss these results, which can be accessed and replayed on Signify's Investor Relations website. In addition, the company organizes an analyst dinner at least once a year hosted by the CEO and the CFO. Each quarter, the Supervisory Board receives a report that summarizes the feedback from institutional shareholders and investors as well as equity analysts, which gives the members of the Supervisory Board 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 using data available in December 2019.

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, 2019, and the related actual interests.

Signify shareholders

	% Actual interest [1]	Total % registered [2]
Baillie Gifford & Co	5.1%	5.1%
Blackrock, Inc.	3.0%	3.5%
Dimensional Fund Advisors LP	3.1%	3.1%
Goldman Sachs Group Inc.	2.7%	3.1%
LSV Asset Management	3.0%	3.0%
Amundi Asset Management	3.0%	3.0%
Norges Bank	0.8%	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

In September 2019, Royal Philips sold its remaining shares in Signify, by selling 13.8 million shares via an accelerated book build offering to institutional investors, which represented approximately 10.7% of Signify's issued share capital at the time.

11.3 Annual General Meeting of Shareholders

The 2020 Annual General Meeting of Shareholders will be held on May 19, 2020. The agenda and the explanatory notes to the agenda will be published on the company's website. The record date for the 2020 Annual General Meeting of Shareholders is April 21, 2020, after processing all settlements of that date. People registered as shareholders in the designated register on that date, and who have applied to attend the meeting, will be entitled to attend and vote on the meeting.

11.4 Capital allocation

Capital allocation policy

Signify intends to maintain a robust capital structure and continues to aim towards a financing structure that is compatible with an investment grade profile. Following the announced acquisition of Cooper Lighting Solutions in October 2019, the company will prioritize deleveraging with strong free cash flows expected to drive down Signify's net leverage ratio from around 2x at closing to below 1x net debt/EBITDA within three years thereafter. The company plans to continue to pay a stable to increased dividend per share. While Signify will prioritize deleveraging, it will continue to invest in R&D and other organic growth opportunities. As Signify will focus on integrating Cooper Lighting Solutions, M&A will have a lower priority.

Dividend policy

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

Proposed dividend

The company proposes a dividend of EUR 1.35 per share, in cash, from the net income for full-year 2019, which represents an increase of 3.8% compared with 2018, and a pay-out ratio of 47% of continuing net income.

Continuing net income is defined as net income excluding discontinued operations and excluding material non-recurring items such as restructuring and acquisition-related charges after tax.

For 2019, continuing net income was calculated based on net income attributable to shareholders of EUR 267 million. By adding back the impact of restructuring costs (EUR 99 million), incidentals (EUR 32 million) and subtracting the related tax impact (EUR 35 million) and non-controlling interests (EUR 5 million), Signify's total continuing net income for 2019 was EUR 359 million.

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

Dividend dates

	Ex-dividend date	Dividend record date	Dividend payment date
Signify shares	May 21, 2020	May 22, 2020	June 2, 2020

Share repurchases for LTI hedging

In June 2019, Signify repurchased 240,000 shares for a total consideration of EUR 6.2 million to cover obligations arising from its long-term incentive performance share plan and other employee share plans. These repurchases took place between June 4 and June 20, 2019. More details on Signify's share repurchases can be found here.

II.5 Debt info

In January 2020, Signify announced that it has signed new committed financing facilities to replace its term loans of EUR 740 million and USD 500 million, and its revolving credit facility of EUR 500 million which were due to expire in May 2021.

The new committed term loan structure consists of EUR 400 million and USD 275 million with a maturity of three years (January 2023) and EUR 340 million and USD 225 million with a maturity of five years (January 2025). The new committed EUR 500 million multi-currency revolving credit facility (RCF) has a maturity of five years (January 2025), with the option to extend it twice by one year at the end of the first and second anniversary. These new facilities have similar terms to the previous facilities.

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

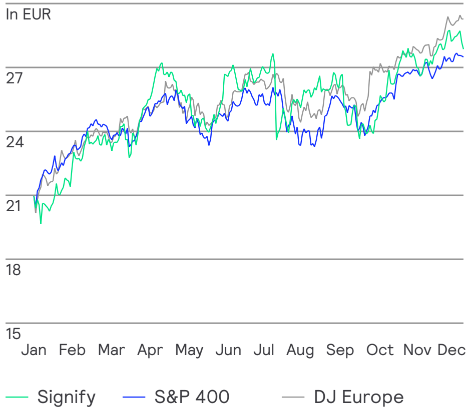
In October 2019, Signify announced the acquisition of Cooper Lighting Solutions. This acquisition is fully financed with debt, with committed bridge financing arranged. Signify intends to replace the bridge loan with a new financing structure before or shortly after the closing of this transaction.

More information about our debt position can be found here.

II.6 Share performance

In 2019, the share price of Signify outperformed the S&P capital goods index and the AEX. The share price increased by 33% in 2019, compared to a 31% increase of the S&P capital goods mid-cap index and a 24% increase in the AEX. The market capitalization at year-end 2019 was EUR 3.5 billion and the free-float was 100%.

Share price development



II.7 Financial calendar

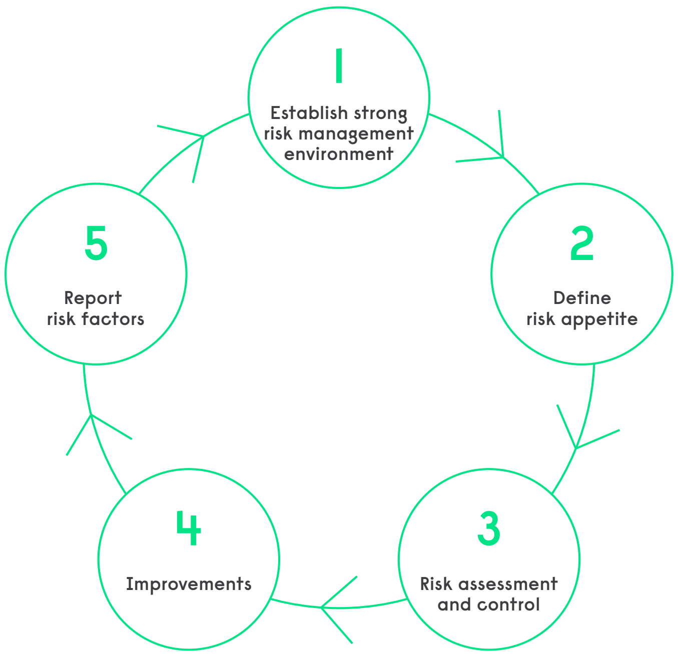
Financial calendar 2020

Q1 2020 financial report	April 24
Annual General Meeting of Shareholders 2020	May 19
Capital Markets Day	June 18
First-half 2020 financial report	July 24
Q3 2020 financial report	October 23

12 Risk factors and risk management

Introduction

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



12.1 Establish strong risk management environment

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

Corporate governance

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

The Board of Management is responsible for the risk management associated with the company's activities and defining the company's risk appetite. It is assisted by the Business Groups, Market Groups and functions, which participate on a quarterly basis in audit risk and control meetings to identify critical risks and review progress on the implementation of risk responses.

The Audit Committee of the Supervisory Board provides oversight for the system of internal business controls and risk management. Internal audits, external audits or management self-assessment are reported to and discussed quarterly by the Audit Committee. An in-depth description of the company's corporate governance structure can be found in chapter 10, Corporate governance, of this Annual Report.

Business Control Framework

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

Integrity code

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

In 2019 Signify launched a revised code of conduct, the Integrity code (previously known as the General Business Principles).

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 is not all-encompassing but formulate minimum standards of behavior. The company has underlying policies that form an integral part of the Integrity code.

In order to increase the level of awareness and to create global engagement, the company has established a network of Compliance Officers in each market and country where the company has a presence, and on each significant site. Compliance Officers have also been appointed at Business Group and Functional level. The activities and responsibilities of this network are focused on providing expertise and support on Integrity code-related matters to managers and employees.

The Integrity code is supported by mechanisms that ensure standardized reporting, escalation and investigation of concerns. These mechanisms are based on the Integrity code Reporting Policy that urges employees and third parties to report any concerns they may have regarding business conduct in relation to the Integrity code, either through a Compliance Officer or through the Signify Ethics line. The Signify Ethics line enables employees and third parties to report a concern either by telephone or online via a web intake form. All concerns raised are registered consistently in a single database and are investigated in accordance with standardized investigation procedures. An overview of the reporting activities for 2019 are given in chapter 16, Sustainability statements, of this Annual Report.

12.2 Define Risk appetite

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

Strategic risks
Strategic risks include economic and political developments and the effects of actions taken to anticipate and respond to market circumstances. The company has medium risk appetite and is prepared to take some reasonable strategic risks, balancing the need to capture return from opportunities and manage risks. This may include investing in certain markets, in R&D and managing the portfolio of businesses, in acquisitions and divestments in a highly uncertain global political and economic environment.

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

Compliance risks
These risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. The company has very low risk appetite and is committed to full compliance to relevant laws, regulations and its Integrity code.

Financial risk
We recognize financial risks outside our control related to treasury, accounting and reporting, pensions and tax. The risk appetite is low, the company aims to minimize the impact, we follow a conservative risk management approach in these areas. Furthermore, the company strives to ensure transparent and truthful accounting and reporting to enable financial statement users to make informed decisions which take the effect of these risks into consideration.

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. Top-down, an annual risk workshop at enterprise level is held with the company leadership team. The bottom-up identification and prioritization process is supported by dedicated workshops, dedicated committees or as an integral part of the planning review cycle with the respective management at the Business Groups, Market Groups and Function levels.

Strategic risk

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

Operational risk

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

Compliance risk

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

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

Employees are requested to state their commitment to the Integrity code after having completed the e-learnings. In 2019, employees were required to complete one or more e-learnings on the Integrity code and related legal compliance domains. Specific target groups were required to participate in recurring face-to-face trainings. In addition, each year Finance and Procurement employees are asked to sign off on the Financial and the Procurement Codes of Ethics respectively. All executives are asked to sign off on the Integrity code each year to confirm their awareness of and compliance with the code. Violations of the Integrity code will result in disciplinary action, up to and including dismissal.

The company has implemented a compliance framework to mitigate compliance risks and to prevent, detect and remediate fraud and other misconduct. The company has rolled out relevant policies, procedures, controls and guidance for topics such as anti-bribery & anti-corruption, antitrust, privacy and export controls. A global network of Compliance Officers deploys the company's compliance program, oversees compliance in the organizations and advises employees on business integrity matters. A recurring training program is in place that provides for online trainings and more in-depth face-to-face-trainings. The company has established a reporting policy and reporting channels. The company also has a process and dedicated resources to investigate and follow-up on, as appropriate, allegations of violation of the Integrity code and/or laws or regulations.

Financial risk

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

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

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

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

The company has developed various actions to ensure that it remains in control on its tax risks and that its tax strategy and principles are being adhered to. The global tax strategy and policy are aligned with our business and sustainability strategies and published on the company's website. In line with this, the Board of Management, enabling functions, Business Groups and Market Groups are advised on tax matters by Group tax. While implementing legal and organizational structures that are necessary to reach sustainable solutions, both needs of the business and tax needs are balanced. The company also participates in (inter)national groups of experts to represent its interests. The company has corporate requirements for the management of the company's legal entities in line with tax legislation. All these actions and their periodic review ensure that the company's tax strategy remains effective and that risks are managed accordingly.

12.4 Improvements

In 2019 Signify launched a revised code of conduct, the Integrity code (previously known as the General Business Principles). Our Integrity code:

- emphasizes our commitment to always acting with integrity, starting from its name;
- is a living document: it will be updated on a yearly basis to ensure continuous improvement. It is a starting point for more awareness;
- is translated in 26 languages;
- incorporates commitment from the top leaders via the co-signed statement of our Leadership Team members;
- reflects our new company name and branding guidelines as well as our purpose and values;
- clarifies the relation between the Integrity code itself and its underlying policies belonging to different domains;
- gives more information on how to speak up and where to find additional resources;
- is user centric: designed around the employee and everyday work life situations he/she might encounter;
- helps us to make the right decisions, from how we behave in the market to how we treat each other.

12.5 Risk Factors at a glance

Below the company describes the risk factors within each risk category, to give stakeholders an insight into which risks and opportunities it currently considers more prominent than others. The risk overview highlights the main risks known to the company – those risks which may hinder the company in achieving its strategic and business objectives and the actions taken to mitigate these risks. The risk overview may not, however, include all the risks that may ultimately affect the company. Describing risk factors in their order of expected significance within each risk category does not mean that a lower listed risk factor may not have a material and adverse impact on the company's business, strategic objectives, revenues, income, assets, liquidity, capital resources or achievement of the company's goals. Furthermore, a risk factor described as less significant than other risk factors may ultimately prove to have more significant adverse consequences than higher risk factors. Over time the company may change its view as to the relative significance of each risk factor.

Risk category	Risk	Mitigating actions
Strategic	Fundamental shifts in the company's industry such as the commoditization of LED lighting or the adoption of connected lighting systems and services based on LED technologies and the company's inability to adapt swiftly to such changes, could have a material adverse effect on its financial condition and operating results	The company`s strategy is to create segmented and differentiated LED offers. The company's innovation capabilities, global reach and client proximity allow for the delivery of a product portfolio that addresses local market needs with both high-volume product and differentiated propositions addressing customer needs across all product segments. In addition, the company is actively participating in the industry migration to connected systems
	As the company's business is global, its operations are exposed to economic and political developments in countries across the world, such as changes in the monetary policy and trade and tax laws of the US, China and EU, that could adversely impact its financial condition and results	Due to its global footprint Signify is able to limit the impact of disruptions in certain geographies on its overall financial conditions and results. Specifically, in response to changes in trade and tax laws the company has been able to a large extent to offset the impact on its financial condition and operating results by adapting its sourcing base, re-negotiating its contracts with suppliers and adjusting its pricing strategy
	The general lighting market in which the company operates is highly competitive as the transition to LED lighting has provided entry points for new competitors and opportunities for rapid market share shifts	In reference to the strategy the company continuously invests in innovation and strengthens the commercial excellence capabilities across all distribution channels. By investing in digitalization the company aims to further improve longstanding local customer relations and the global distribution network. Furthermore, the company runs cost reduction programs to keep our cost base competitive
	Acquisitions, such as the announced acquisition of Cooper Lighting Solutions, could expose the company to integration risks, failure to realize planned synergies and may lead to a diversion of management resources	Signify runs a diligent process to select potential acquisition targets. For the integration of new acquisitions there is a dedicated support program office to monitor the integration and delivery of synergies per plan. Moreover, the company evaluates past acquisitions and applies lessons learned on existing and potential future integrations
	The company's inability to secure and maintain intellectual property rights for products and services, or the unauthorized use of the company's intellectual property rights, could have a material adverse effect on its results	In Signify there is a dedicated team to handle intellectual property related risks. In response to these risks Signify can use its innovation capabilities to potentially redesign products & services and/or use its own IP assets to mitigate the risks
Operational	The company has previously implemented and is currently implementing certain business transformation programmes intended to ensure sustainable performance by transforming processes, operations, organisation and culture. These programmes may not be successfully implemented or continued and may not improve the overall performance of the company's business	Signify set-up a transformation office and appointed Value Stream Leaders to lead the process from project initiation to implementation in the organization. The critical projects are reviewed directly by the Board of Management. Furthermore, to ensure the changes are sustainable the company has also introduced several organizational health actions

Risk category	Risk	Mitigating actions
Operational	The company has experienced a declining sales trend and cost savings initiatives are needed to maintain competitiveness but these initiatives may not be successful	Cost reductions are run through a dedicated programme office where the timely realization of the initiatives and related savings are continuously monitored. Furthermore, to stimulate sales, the company has also defined a number of specific growth initiatives.
	Failure to drive operational excellence, productivity and speed in the company's process to create and bring product and solution innovations to market could hamper its profitable growth ambitions	The performance is structurally measured and processes have been continuously improved throughout the year. In addition the quality of end user insights has been improved and the value proposition creation process has been further detailed to address this risk
	If the company is unable to ensure effective supply chain management, for example an interruption of its supply chain through a natural disaster, pandemic disease or the inability of third parties to deliver parts, components and services on time, or if it is subject to rising raw material prices, it may be unable to sustain its competitiveness in its markets	In response to this risk Signify has further enhanced its supplier risk program, assessing financial and non-financial risk areas, to be able to detect early and anticipate high risk, high impact situations. These situations are addressed by dedicated contingency plans and mitigation actions, that can include among others the release of alternative suppliers, the insourcing of activities, or the increase of strategic inventories. These measures were applied for instance to prepare for the risk of hard-Brexit related supply disruptions
	A breach in the security of, or a significant disruption to, the company's information technology systems could adversely affect its operating results, financial condition, reputation and brand	Signify has a dedicated corporate security department that provides guidance and assurance to the complete company. In addition, Signify has a dedicated security operation center reporting into the IT department which is responsible for detection, mitigation and resolving of cyber securi-related incidents in a timely manner. Furthermore, technical security measures are in place that support the defense in depth principle starting from the information to the infrastructure controls
	Failure to comply with quality standards may reduce sales, result in costs associated with warranty or product liability claims or require recall of affected items	Signify has robust quality assurance processes and makes use of state-of-the-art Quality Planning Tools. Furthermore the company has a Safety Council in place to respond immediately to quality incidents and has installed regular workshops to learn from field performance for current and future designs
	The company is dependent on its people for leadership and specialised skills and, as a result, the loss of its ability to attract and retain such personnel would have an adverse effect on its business	Employee engagement is a key focus area for teams and leaders through a quarterly cadence of team survey and dialogue. In addition, Signify invests in the professional and career development of personnel through professional and personal learning initiatives as well as through dedicated talent management programs which identify top talents early in their career and plan for development. Furthermore, the company performs exit interviews when it is faced with regrettable departures to learn and take appropriate actions where needed

Risk category	Risk	Mitigating actions
Operational	The company is exposed to climate risks that could cause direct damage to assets and indirect damage from supply chain disruption, impacting its financial condition and operating results	As part of its Brighter Lives, Better World program, Signify is taking measures to manage climate risks. Signify is committed to 100% operational carbon neutrality, 100% renewable electricity and to increase energy efficiency of its products, services and systems to drive the transition to a low-carbon economy. Additionally, Signify is working at individual plant level to reduce and mitigate climate risks based on a 2°C or lower scenario. Regular risk assessments are performed, including the assessment of risks related to natural catastrophe perils and water scarcity. These assessments are also performed at locations of business-critical suppliers. For more on risks and opportunities related to climate change, please refer to Sustainability Supplements to this Annual Report
	The company is exposed to developments of an environmental or social nature which could affect its reputation. These may be connected to the behavior of individual employees or suppliers or could relate to adherence to regulations related to labor, health and safety, environment or chemical management. Reputational damage could materially impact the company's financial condition and operating results.	Signify has deployed strong Health & Safety, Environmental, Human Rights and Sustainability policies as well as due diligence processes to manage such risks. Incident reporting, assessments, third party and internal audits are done on an on-going basis. The Leadership Team is involved in mitigation actions through various governance meetings and regular updates for immediate action when needed
Compliance	The company's global presence exposes it to regional and local regulatory rules, changes to which may affect the realization of business opportunities and investments in the countries in which the company operates	Signify has established a network of legal counsels covering each market and country where the company has a significant presence. These lawyers support the business in its commitment to act in compliance with applicable laws and regulations through activities such as training and advice. Moreover, in response to The Paris Agreement and carbon-pricing, Signify deploys voluntary GHG emissions reduction activities that go beyond strictly complying with cap and trade schemes
	The company is exposed to risks of fraud and other misconduct in violation of the Integrity code and/or applicable laws and regulations and governmental investigation and legal proceedings in relation thereto	Signify has created the Signify Legal Compliance Program, including domains such as Antitrust, Anti-Bribery & Anti-Corruption, Export Controls & Sanctions and Privacy. Further reference is also made to paragraph 12.1 & 12.3 of this annual report
	The company is exposed to non-compliance with privacy and data protection and product safety regulations and laws	The company strives to protect the personal data entrusted to the company via privacy rules. These implemented privacy rules address the worldwide processing of personal data by or on behalf of the company in its role as controller until the purpose it was collected for has been fulfilled. The privacy rules are supplemented through relevant sub-policies and privacy notices which are consistent with the privacy rules

Risk category	Risk	Mitigating actions
Financial	The company is exposed to a variety of treasury risks and other financial risks including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risk	The company has various policies in place to manage treasury risks. For further analysis, please refer to note 29, Financial risk management
	The company is exposed to various tax risks and uncertainties which could impact the local tax results	Tax risks are assessed in conjunction with the business where these arise. Signify has identified key tax controls that are part of the company's business control framework. There is a tax risk framework in place which sets out the controls established to assess and monitor tax risks for direct and indirect taxes. Any key tax risks identified are monitored and the controls in place are tested. In addition, each year the Head of Tax discusses with the Audit Committee regarding tax developments, any uncertain tax positions, tax risk management and tax strategies. For further details, please refer to the tax risks paragraph in note 9, Income taxes
	Changes to taxation or the interpretation or application of tax laws could have an adverse impact on the company's results of operations and financial condition	The company monitors proposed changes in taxation legislation and takes these into account when considering future business plans
	The company has defined-benefit and other post-employment benefit plans such as retirement plans in several countries. The funding level and the cost of maintaining these plans are influenced by movements in financial markets and demographic developments, creating volatility in the company's financials	The company has a long-term employee benefits committee which monitors these plans. Where possible, the company actively hedges interest risks and annually reviews the optimal funding level, for example for the US qualified retirement plan which makes up more than 50% of the total post-retirement benefits obligations. The plans are managed according to a global policy, in line with local legislation and regulations and with the help of external actuaries and investment managers

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

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

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

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

With respect to financial reporting a structured self-assessment and monitoring process is used company-wide to assess, document, review and monitor compliance with internal control over financial reporting. Internal representations received from management, regular management reviews, reviews of the design and effectiveness of internal controls and reviews in company and Business Group, Market and Function Audit Committees are integral parts of the company's risk management approach. On the basis thereof, 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, including 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 25, 2020

Board of Management
Eric Rondolat
Stéphane Rougeot
René van Schooten

Corporate statements

Table of contents

Corporate statements

14 Consolidated financial statements 74
- 14.1 Consolidated statement of income 75
- 14.2 Consolidated statement of comprehensive income 76
- 14.3 Consolidated statement of financial position 77
- 14.4 Consolidated statement of cash flows 79
- 14.5 Consolidated statement of changes in equity 81
- 14.6 Notes to the Consolidated financial statements 82
  - 1 Basis of preparation 82
  - 2 Significant accounting policies 88
  - 3 Information by segment and main country 96
  - 4 Income from operations 98
  - 5 Employee benefit expenses 98
  - 6 Depreciation, amortization and impairment 99
  - 7 Other business income and expenses 99
  - 8 Financial income and expenses 99
  - 9 Income taxes 100
  - 10 Earnings per share 103
  - 11 Acquisitions and divestments 103
  - 12 Interests in entities 104
  - 13 Property, plant and equipment 105
  - 14 Leases 106
  - 15 Intangible assets 107
  - 16 Objectives, policies and processes for managing capital 109
  - 17 Inventories 109
  - 18 Trade and other receivables 109
  - 19 Trade and other payables 110
  - 20 Other assets 110
  - 21 Other liabilities 110
  - 22 Equity 111
  - 23 Debt 112
  - 24 Provisions 114
  - 25 Post-employment benefits 115
  - 26 Related party transactions 117
  - 27 Share-based compensation 117
  - 28 Information on remuneration 119
  - 29 Financial risk management 120
  - 30 Events after the balance sheet date 124

15 Signify N.V. financial statements 125
- 15.1 Statement of financial position before appropriation of results 126
- 15.2 Statement of income 127
- 15.3 Statement of changes in equity 128
- 15.4 Notes to the Company financial statements 129
  - A Statement of income 129
  - B Audit fees 129
  - C Financial assets 129
  - D Shareholders' equity 130
  - E Debt 131
  - F Employees 131
  - G Contingent liabilities not appearing in the balance sheet 131
  - H Events after the balance sheet date 131

16 Sustainability statements 132
- 16.1 Approach to sustainability reporting 132
- 16.2 Sustainable Innovation 137
- 16.3 Brighter Lives 137
- 16.4 Better World 151

17 Combined independent auditor's report 157

18 Reconciliation of non-IFRS financial measures 169

19 Definitions and abbreviations 174

20 Forward-looking statements and other information 178

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 2019 have been endorsed by the EU; consequently, the accounting policies applied by Signify also comply with IFRS as issued by the IASB.

The following chapters of this Annual Report:
- 3, Creating value
- 4, Corporate performance
- 6, Board of Management
- 7, Supervisory Board
- 8, Supervisory Board report, sub-section 8.3.2 Corporate Governance and Nomination & Selection Committee
- 10, Corporate governance
- 11, Investor Relations, section 11.2, Shareholder base
- 12, Risk factors and risk management
- 13, Statement of the Board of Management
- 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 sections 4.3, Proposed distribution to shareholders, 10.1, Signify organization and chapter 17, Combined independent auditor's report, of this Annual Report.

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

14.1 Consolidated statement of income

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

	Note	2018	2019
Sales	3	6,358	6,247
Cost of sales		(3,976)	(3,940)
Gross margin		**2,382**	**2,307**
Selling, general and administrative expenses		(1,675)	(1,637)
Research and development expenses		(312)	(283)
Impairment of goodwill	15	-	-
Other business income	7	32	22
Other business expenses	7	(17)	(8)
Income from operations	4	**410**	**401**
Financial income	8	20	17
Financial expenses	8	(61)	(60)
Results from investments in associates		(2)	1
Income before taxes		**367**	**360**
Income tax expense	9	(106)	(93)
Net income		**261**	**267**
Attribution of net income for the period:			
Net income attributable to shareholders of Signify N.V.		263	262
Net income attributable to non-controlling interests		(2)	5
Earnings per common share attributable to shareholders	10		
Weighted average number of ordinary shares outstanding used for calculation (in thousands):			
• Basic		134,306	126,028
• Diluted		134,672	127,626
Net income attributable to shareholders per ordinary share in EUR:			
• Basic		1.95	2.08
• Diluted		1.95	2.06

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

	2018	2019
Net income	**261**	**267**
Pensions and other post-employment plans:		
• Remeasurements	(10)	6
• Income tax effect on remeasurements	1	(3)
Total of items that will not be reclassified to the income statement	**(9)**	**4**
Currency translation differences:		
• Net current period change, before tax	61	38
• Income tax effect	-	(1)
Cash flow hedges:		
• Net current period change, before tax	(11)	1
• Income tax effect	1	1
Total of items that are or may be reclassified to the income statement	**51**	**39**
Other comprehensive income	**42**	**42**
Total comprehensive income	**303**	**309**
Total comprehensive income attributable to:		
• Shareholders of Signify N.V.	301	304
• Non-controlling interests	2	6

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	2018[1]	2019
Non-current assets			
Property, plant and equipment	3, 13	431	644
Goodwill	3, 15	1,771	1,943
Intangible assets, other than goodwill	3, 15	493	443
Investments in associates	12	11	14
Financial assets	29	49	49
Deferred tax assets	9	399	384
Other assets	20	58	64
Total non-current assets		**3,211**	**3,541**
Current assets			
Inventories	17	878	874
Financial assets	29	4	-
Other assets	20	107	161
Derivative financial assets	29	28	16
Income tax receivable	9	35	48
Trade and other receivables	18	1,231	1,223
Cash and cash equivalents	29	676	847
Assets classified as held for sale		9	4
Total current assets		**2,969**	**3,174**
Total assets		**6,181**	**6,715**

14.3 Consolidated statement of financial position (continued)

	Note	2018[1]	2019
Equity			
Shareholders' equity	22	2,041	2,181
Non-controlling interests	12	78	142
Total equity		**2,119**	**2,324**
Non-current liabilities			
Debt	23	1,187	1,369
Post-employment benefits	25	475	437
Provisions	24	237	216
Deferred tax liabilities	9	19	28
Income tax payable	9	48	52
Other liabilities	21	125	135
Total non-current liabilities		**2,091**	**2,236**
Current liabilities			
Debt, including bank overdrafts	23	78	96
Derivative financial liabilities	29	22	20
Income tax payable	9	15	22
Trade and other payables	19	1,507	1,684
Provisions	24	168	149
Other liabilities	21	179	183
Liabilities from assets classified as held for sale		0	2
Total current liabilities		**1,970**	**2,155**
Total liabilities and total equity		**6,181**	**6,715**

[1] This consolidated statement of financial position was updated for certain reclassification changes made. Refer to note 1, Basis of preparation.

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	2018[1]	2019
Cash flows from operating activities			
Net income		261	267
Adjustments to reconcile net income to net cash provided by operating activities:		547	586
• Depreciation, amortization and impairment of non-financial assets	6	231	288
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates		2	(0)
• Net gain on sale of assets		(8)	(13)
• Net interest expense on debt, borrowings and other liabilities		15	15
• Income tax expense	9	106	93
• Additions to (releases of) provisions	24	151	154
• Additions to (releases of) post-employment benefits	25	19	24
• Other items		31	25
Decrease (increase) in working capital:		8	110
• Decrease (increase) in trade and other receivables	18	113	83
• Decrease (increase) in inventories	17	43	35
• Increase (decrease) in trade and other payables	19	(92)	21
• Increase (decrease) in other current assets and liabilities		(56)	(30)
Increase (decrease) in other non-current assets and liabilities		(3)	(11)
Utilizations of provisions	24	(223)	(189)
Utilizations of post-employment benefits	25	(63)	(57)
Interest paid, net		(23)	(17)
Income taxes paid		(123)	(90)
Net cash provided by (used for) operating activities		**381**	**599**
Cash flows from investing activities			
Net capital expenditures:		(75)	(70)
• Additions of intangible assets	15	(26)	(29)
• Capital expenditures on property, plant and equipment	13	(57)	(58)
• Proceeds from disposal of property, plant and equipment		8	16
Net proceeds from (cash used for) derivatives and other financial assets		(13)	5
Purchases of businesses, net of cash acquired	11	(7)	(95)
Proceeds from sale of businesses, net of cash disposed of		5	15
Net cash provided by (used for) investing activities		**(90)**	**(145)**

14.4 Consolidated statement of cash flows (continued)

	Note	2018[1]	2019
Cash flows from financing activities			
Dividend paid		(171)	(165)
Proceeds from issuance of debt	23	28	12
Repayment of debt	23	(87)	(127)
Purchase of treasury shares		(324)	(6)
Net cash provided by (used for) financing activities		**(554)**	**(286)**
Net cash flows		**(263)**	**168**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts		2	7
Cash and cash equivalents and bank overdrafts at the beginning of the period		925	664
Cash and cash equivalents and bank overdrafts at the end of the period	29	**664**	**840**
Non-cash investing and financing activities:			
Acquisition of fixed assets by means of new leases			**42**

[1] This consolidated statement of cash flows was updated for certain reclassification changes made. Refer to note 1, Basis of preparation

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

14.5 Consolidated statement of changes in equity

Consolidated statement of changes in equity in millions of EUR

	Share capital	Share premium	Retained earnings	Currency translation differ-ences	Cash flow hedges	Treasury shares	Total share-holders' equity	Non-con-trolling interests	Equity
Balance as at January 1, 2018	**1**	**2,163**	**276**	**(87)**	**1**	**(124)**	**2,231**	**76**	**2,307**
Net income	-	-	263	-	-	-	263	(2)	261
Other comprehensive income (loss)	-	-	(9)	58	(10)	-	39	3	42
Total comprehensive income (loss)	**-**	**-**	**253**	**58**	**(10)**	**-**	**301**	**2**	**303**
Movement in non-controlling interests	-	-	-	-	-	-	-	1	1
Dividend distributed	-	-	(171)	-	-	-	(171)	(1)	(171)
Purchase of treasury shares	-	(0)	(15)	-	-	(324)	(339)	-	(339)
Cancellation of treasury shares	(0)	-	(380)	-	-	380	-	-	-
Delivery of treasury shares	-	(2)	(0)	-	-	2	-	-	-
Share-based compensation plans	-	20	-	-	-	-	20	-	20
Funding by (distribution to) Royal Philips	-	(1)	-	-	-	-	(1)	-	(1)
Balance as at December 31, 2018	**1**	**2,179**	**(37)**	**(29)**	**(9)**	**(65)**	**2,041**	**78**	**2,119**
Balance as at January 1, 2019	**1**	**2,179**	**(37)**	**(29)**	**(9)**	**(65)**	**2,041**	**78**	**2,119**
Adoption of IFRS 16 (net of tax)[1]	-	-	(12)	-	-	-	(12)	-	(12)
Restated balance as at January 1, 2019	**1**	**2,179**	**(48)**	**(29)**	**(9)**	**(65)**	**2,030**	**78**	**2,108**
Net income	-	-	262	-	-	-	262	5	267
Other comprehensive income (loss)	-	-	4	35	2	-	41	1	42
Total comprehensive income (loss)	**-**	**-**	**266**	**35**	**2**	**-**	**304**	**6**	**309**
Movement in non-controlling interests	-	-	-	-	-	-	-	60	60
Dividend distributed	-	-	(164)	-	-	-	(164)	(1)	(165)
Purchase of treasury shares	-	-	(0)	-	-	(6)	(6)	-	(6)
Delivery of treasury shares	-	(2)	(1)	-	-	3	-	-	-
Share-based compensation plans	-	18	-	-	-	-	18	-	18
Balance as at December 31, 2019	**1**	**2,195**	**53**	**7**	**(7)**	**(68)**	**2,181**	**142**	**2,324**

[1] Refer to note 1, Basis of preparation.

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

14.6 Notes to the Consolidated financial statements

In millions of EUR unless otherwise stated

1 Basis of preparation

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

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

The term Royal Philips is used for Koninklijke Philips N.V. and its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code.

The Company was incorporated as a private limited liability company on February 1, 2016 and converted into a public company with limited liability on May 31, 2016. On May 15, 2018, the name of the Company changed from Philips Lighting N.V. to Signify N.V.

Basis of preparation

The Consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. The Consolidated financial statements are prepared by the Executive Board of the Company and authorized for issue on February 25, 2020 and will be submitted for adoption to the Annual General Meeting of Shareholders on May 19, 2020.

Basis of measurement

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

Functional and presentational currency

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

Critical accounting judgments and key sources of estimation uncertainty

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

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

The areas where the most significant judgments and estimates are made are goodwill, deferred tax asset recoverability, revenue recognition, impairments, provisions, employee benefit obligations, inventory valuation and obsolescence provision, estimation of allowances for doubtful accounts as well as fair value of derivatives and other financial instruments. 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.

Changes in accounting policy

New and amended standards adopted by the group

Signify has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

Signify changed its accounting policies as a result of adopting IFRS 16. The other amendments listed above did not have any significant impact on the amounts recognized in the prior period and current period.

IFRS 16 Leases

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

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

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

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

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

The effect of the adoption of IFRS 16 on the Consolidated statement of financial position as of January 1, 2019 was as follows:

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

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

The effect of the adoption of IFRS 16 had no impact on the Company's sales, while the Income from operations was positively impacted by approximately EUR 11 million for the year ended December 31, 2019. This was a result of operating lease expenses being replaced by depreciation, service costs and interest expenses, of which the latter was not recognized in Income from operations.

In addition, the cash flow from operating activities for the year ended December 31, 2019, was positively impacted by around EUR 71 million as, under the new standard, cash payments for the principal part of the lease liability are classified in the cash flow from financing activities instead of in the cash flow from operating activities.
Cash payments for the interest part of the lease liability continues to be included in cash flow from operating activities.

Signify had no impact of the adoption of IFRS 16 on compliance with debt covenants.

Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments and discounted using the incremental borrowing rate at the date of initial application. The lease liabilities as of January 1, 2019 reconcile to the operating lease commitments as of December 31, 2018, as follows:

Operating lease commitments as at December 31, 2018	**285**
Discounting impact	(23)
Short-term leases	(5)
Derecognition of lease liabilities for IT equipment	(9)
Other impacts	11
IFRS 16 opening balance impact on lease liabilities as at January 1, 2019	**259**

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

Summary of new accounting policies

Right-of-use assets

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

Lease liabilities

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

Short-term leases and leases of low-value assets

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

Significant judgment in determining the lease term of contracts with renewal options and incremental borrowing rate

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

To determine the incremental borrowing rate, Signify uses a build-up approach that starts with a risk-free interest rate adjusted for country, currency and risk premium and credit spread.

New standards and interpretations not yet adopted

The following new accounting standards and interpretations have been published that are mandatory for January 1, 2020 or later reporting periods and have not been early adopted by Signify:

- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business – Amendments to IFRS 3 Business Combinations
- Definition of Material – Amendments to IAS 1 and IAS 8
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and measurement and IFRS 7 Financial Instruments: Disclosures – Interest Rates Benchmark Reform

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

Changes in presentation of consolidated statement of financial position and consolidated statement of cash flows

The presentation of the Consolidated statement of financial position has been amended to further improve transparency and readability of these statements in line with market practice. As a result of these changes total amounts of current and non-current assets and liabilities, equity as at December 31, 2018 were not impacted. The changes are only reclassifications within non-current assets, current liabilities and non-current liabilities. See modified Consolidated statement of financial position as at December 31, 2018 below.

Consolidated statement of financial position

	Before changes	Changes	After changes
Non-current assets			
Property, plant and equipment	431	-	431
Goodwill	1,771	-	1,771
Intangible assets, excluding goodwill	493	-	493
Investments in associates	11	-	11
Non-current receivables	38	(38)	-
Other non-current financial assets	20	(20)	-
Financial assets [1]		49	49
Deferred tax assets	399	-	399
Other assets [2]	49	8	58
Total non-current assets	**3,211**	**-**	**3,211**
Total current assets	**2,969**	**-**	**2,969**
Total assets	**6,181**	**-**	**6,181**
Total equity	**2,119**	**-**	**2,119**
Non-current liabilities			
Debt	1,187	-	1,187
Post-employment benefits [3]		475	475
Provisions	712	(475)	237
Deferred tax liabilities	19	-	19
Income tax payable [4]		48	48
Other liabilities	173	(48)	125
Total non-current liabilities	**2,091**	**-**	**2,091**

	Before changes	Changes	After changes
Current liabilities			
Debt, including bank overdrafts	78	-	78
Derivative financial liabilities	22	-	22
Income tax payable	15	-	15
Accounts and notes payable [5]	953	(953)	-
Accrued liabilities [5]	444	(444)	-
Trade and other payables		1,507	1,507
Provisions	168	-	168
Other liabilities [6, 7]	288	(109)	179
Liabilities directly associated with assets classified as held for sale	-	-	-
Total current liabilities	**1,970**	**-**	**1,970**
Total liabilities and total equity	**6,181**	**-**	**6,181**

1 Non-current receivables and Other non-current financial assets were merged into Financial assets within non-current assets.
2 Non-current income tax receivable was moved from Non-current receivables to Other assets within non-current assets.
3 Post-employment benefits were separated from Provisions.
4 Income tax payable was separated from Other liabilities.
5 Accounts and notes payable and Accrued liabilities were merged into Trade and other payables.
6 Rebates payable of EUR 163 million were moved from Other liabilities into Trade and other payables.
7 Contract liabilities of EUR 54 million were moved from Accrued liabilities to Other liabilities.

The presentation of the Consolidated statement of cash flows has been amended to better correspond to the balance sheet and to further improve transparency on cash flow movements. Impact on the Consolidated statement of cash flows for the year ended December 31, 2018 is stated in the table below. Net cash provided by operating activities, investing activities and financing activities did not change.

	Before changes	Changes	After changes
Cash flows from operating activities			
Net income (loss)	261		261
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	547		547
• Depreciation, amortization and impairment of non-financial assets	231		231
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	2		2
• Net gain on sale of assets	(8)		(8)
• Interest income [1]	(16)	16	-
• Net interest expense on debt, borrowings and other liabilities [1]	31	(16)	15
• Income tax expense	106		106
• Additions to (releases of) provisions [2]	170	(19)	151
• Additions to (releases of) post-employment benefits [2]		19	19
• Other items	31		31
Decrease (increase) in working capital:	8		8
• Decrease (increase) in trade and other receivables	113		113
• Decrease (increase) in inventories	43		43
• Increase (decrease) in trade and other payables [3]	(54)	(38)	(92)
• Increase (decrease) in other current assets and liabilities [3]	(95)	38	(56)
Increase (decrease) in other non-current assets and liabilities	(3)		(3)
Utilizations of provisions [4]	(286)	63	(223)
Utilizations of post-employment benefits [4]		(63)	(63)
Interest paid, net	(23)		(23)
Income taxes paid	(123)		(123)
Net cash provided by (used for) operating activities	**381**		**381**

1 Interest income and expense are presented at net. These items were presented at gross previously.
2 Additions to (releases of) post-employment benefits are presented separately. They were presented in Additions to (releases of) provisions previously.
3 Increase (decrease) in trade and other payables now includes movements for customer rebates and accrued liabilities, other than contract liabilities. They were presented in Increase (decrease) in other current asset and liabilities previously.
4 Utilizations of post-employment benefits are presented separately. They were presented in Utilizations of provisions previously.

	Before changes	Changes	After changes
Cash flows from investing activities			
Net capital expenditures:	(75)		(75)
• Additions of intangible assets	(26)		(26)
• Capital expenditures on property, plant and equipment	(57)		(57)
• Proceeds from disposal of property, plant and equipment	8		8
Net proceeds from (cash used for) derivatives and other financial assets [1]	(4)	(9)	(13)
Proceeds from other non-current financial assets [1]	2	(2)	-
Purchases of other non-current financial assets [1]	(11)	11	-
Purchases of businesses, net of cash acquired	(7)		(7)
Proceeds from sale of businesses, net of cash disposed of	5		5
Net cash provided by (used for) investing activities	**(90)**		**(90)**
Cash flows from financing activities			
Dividend paid	(171)		(171)
Proceeds from issuance of debt [2]	(59)	87	28
Repayment of debt [2]		(87)	(87)
Purchase of treasury shares	(324)		(324)
Net cash provided by (used for) financing activities	**(554)**		**(554)**
Net cash flows	**(263)**		**(263)**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts	2		2
Cash and cash equivalents and bank overdrafts at the beginning of the period	925		925
Cash and cash equivalents and bank overdrafts at the end of the period	**664**		**664**

[1] Net proceeds from (cash used for) derivatives and other financial assets includes purchases and proceeds from non-current financial assets. They were presented in Proceeds from other non-current financial assets and Purchases of other non-current financial assets previously.

[2] Proceeds and repayment of debt are presented separately. These items were presented at net previously.

2 Significant accounting policies

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

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

Business combinations
Business combinations are accounted for using the acquisition method. Under the acquisition method, the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree are recognized at the acquisition date, which is the date on which control is transferred to Signify. Signify measures goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

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

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

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the currency translation differences related to the foreign operation is reclassified to the Consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition
Sale of goods
Revenue from the sale of goods is recognized at the point in time when the customer obtains control over the goods. For standard sale of products, control generally passes to the customer at the time the product is delivered and accepted, depending on the delivery conditions and incoterms. Revenue is recognized at the amount to which Signify expects to be entitled. The transaction price excludes amounts collected on behalf of third parties, such as sales taxes. Payments made to customers for distinct goods or services are excluded from

the revenue recognized and recorded as part of Selling, general and administrative expenses. Signify does not adjust the transaction price for the effects of significant financing component if, at contract inception, it is expected that the period between customer payment and the transfer of goods or services is one year or less. This applies to most sales transactions. The transaction price may be variable due to discounts, rebates or similar arrangements. Revenue is only recognized for the part of the consideration for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Judgment is required in determining the probability and level of discounts and rebates that will be granted. The estimate is updated throughout the term of the contract.

For products for which a right to return exists during a defined period, revenue is recognized by considering the historical pattern of actual returns. Return policies are typically based on customary return arrangements in local markets.

Sale of services

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

Transactions with multiple performance obligations

When a single contract contains multiple deliverables, for example supply of goods and services, these multiple deliverables may be combined in one or more performance obligations. For these transactions, Signify accounts for individual goods and services, including any goods or services provided for free, separately in case they are distinct. Performance obligations may be satisfied over time, typically because Signify is creating or enhancing an asset that the customer controls. In limited cases, Signify may also be creating an asset with no alternative use while having an enforceable right to payment for performance to date. In both instances, revenue is recognized over time. The total consideration of the contract is allocated to all distinct performance obligations in the contract based on their stand-alone selling prices. Stand-alone selling prices are determined based on other stand-alone sales transactions that are directly observable, when possible. However, observable prices are not available for all performance obligations. If no direct observable prices are available, the stand-alone selling price is normally based on the expected cost plus a margin approach.

Contract assets and liabilities

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

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

Other

Signify may incur costs for obtaining a contract, including payments made to agents that depend on winning the contract. Signify applies the practical expedient from IFRS 15, allowing the incremental costs of obtaining a contract to be expensed if the associated amortization period is 12 months or less. As a result, no amounts of contract costs were recognized in the balance sheet.

Income and expenses

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

Shipping and handling expenses related to sales to third parties are generally recorded as Selling, general and administrative expenses. When shipping and handling is part of a project and billed to the customer, then the related expenses are recorded as Cost of sales. Shipping and handling billed to customers is recognized as Sales.

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

Inventories

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

Financial instruments

Recognition

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

Classification and measurement

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

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

Netting of financial assets and liabilities

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

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

Derecognition of financial assets

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

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

or

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

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

Impairment of trade receivables and contract assets

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

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

Impairment of other financial assets

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

Derivatives and hedge accounting

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

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

Signify 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. There was no change to the allocation of these gains and losses between current and prior year.

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

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

Income taxes

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

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

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

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

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

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

Deferred tax assets

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

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

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

Acquired finite-lived intangible assets are amortized using the straight-line method over their estimated useful life. The useful lives are evaluated annually. Intangible assets are initially capitalized at cost, with the exception of intangible assets acquired as part of a business combination that are capitalized at their acquisition-date fair value.

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

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

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

Expected useful lives of intangible assets excluding goodwill in years

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

Impairment of goodwill and intangible assets not yet ready for use

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

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

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

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

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

Pension and other employee benefits

Defined-benefit plans

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

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

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

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

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

Defined-contribution plans

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

Termination benefits

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

Other employee benefits

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

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

Cash and cash equivalents

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

Assets held for sale

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

Hyperinflationary economies

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

In 2019 and 2018, hyperinflation accounting was applicable for Signify operations in Argentina, but the impact from hyperinflation accounting was not material.

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 the Company'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 the Company'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 over the residual values and estimated useful lives and is primarily included in Cost of sales. Freehold land is not depreciated. Gains and losses on the sale of property, plant and equipment are included in Other business income. Costs related to repair and maintenance activities are expensed in the period in which they are incurred unless leading to an extension of the original lifetime of capacity.

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

Useful lives property, plant and equipment in years

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

Share-based compensation expenses

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

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as personnel expense, with a corresponding increase in equity, over the vesting period of the award. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company'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 the company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

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

Consolidated statement of cash flows

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

Earnings per share

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

Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the company 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 the company's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Board of Management of the Company). The operating segments are Lamps, LED, Professional and Home. The segments are organized based on the nature of the products and services. 'Other' represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions.

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

	Lamps	LED	Professional	Home	Other [4]	Intersegment elimination	Signify
2019							
Sales to external customers	1,159	1,891	2,649	521	27		6,247
Sales including intersegment	1,166	2,036	2,652	522	28	(157)	6,247
Depreciation and amortization [1]	(32)	(15)	(52)	(19)	(71)		(189)
EBITA [2]	168	217	222	5	(112)		500
EBITA as a % of sales	14.5%	11.5%	8.4%	1.0%			8.0%
Amortization [3]							(99)
Income from operations	**168**	**212**	**133**	**3**	**(114)**		**401**
Financial income and expenses							(43)
Results from investments in associates							1
Income before taxes							**360**
2018							
Sales to external customers	1,428	1,812	2,635	467	16		6,358
Sales including intersegment	1,438	1,943	2,639	469	25	(157)	6,358
Depreciation and amortization [1]	(37)	(12)	(44)	(10)	(34)		(137)
EBITA [2]	270	204	208	(43)	(135)		504
EBITA as a % of sales	18.9%	11.3%	7.9%	(9.2)%			7.9%
Amortization [3]							(94)
Income from operations	**269**	**200**	**121**	**(44)**	**(137)**		**410**
Financial income and expenses							(41)
Results from investments in associates							(2)
Income before taxes							**367**

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

Sales between the segments mainly relate to the supply of goods. The pricing of such transactions is determined on an ‘arm’s length basis’.

Signify has no external customer that represents 10% or more of total sales.

Sales, tangible and intangible assets by main countries:

	Sales		Tangible and intangible assets[1]	
	2018	2019	2018	2019
Netherlands	551	515	120	195
United States	1,361	1,317	1,803	1,799
China	441	548	86	308
Germany	464	418	6	16
India	416	372	15	22
France	310	296	10	17
Saudi Arabia	129	144	174	164
Other countries	2,687	2,636	479	510
Total countries	**6,358**	**6,247**	**2,695**	**3,030**

[1] Including goodwill.

Disaggregated revenue information

Total sales consist primarily of the sales of goods to customers (2019: 96%, 2018: 97%). Remaining sales include revenue from services, sales-and usage-based royalties and leases. The amount of revenue recognized in the period ended December 31, 2019 from performance obligations satisfied (or partially satisfied) in previous periods amounts to EUR 35 million (2018: EUR 34 million).

Sales by market:

	2018	2019
Europe[1]	2,337	2,238
Americas[1]	1,830	1,747
Rest of the world[1]	1,840	1,855
Global businesses[1]	352	406
Total	**6,358**	**6,247**

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

4 Income from operations

	Note	2018	2019
Sales	3	6,358	6,247
Cost of Materials used		(2,806)	(2,810)
Employee benefit expenses	5	(1,734)	(1,651)
Depreciation and amortization	6	(231)	(288)
Shipping and handling		(214)	(235)
Advertising and promotion		(156)	(133)
Lease related expenses		(101)	(24)
Other operational costs		(721)	(719)
Other business income, net	7	15	15
Income from operations		**410**	**401**

Other operational costs contain items which are dissimilar in nature and individually insignificant in amount to disclose separately. These costs contain, among others, expenses for outsourcing services, mainly in IT and HR, third-party workers, utilities and repair and maintenance for fixed assets.

5 Employee benefit expenses

Personnel expenses by nature as included in the Consolidated statement of income:

	Note	2018	2019
Salaries and wages		(1,027)	(995)
Social securities		(192)	(180)
Defined-contribution plans		(80)	(71)
Cost of termination plans		(97)	(77)
Temporary personnel		(70)	(63)
Share-based compensation	27	(29)	(21)
Other		(239)	(243)
Total		**(1,734)**	**(1,651)**

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

	2018	2019
Employees	27,161	26,204
Third party workers	3,442	3,054
Total[1]	**30,603**	**29,258**

[1] 2,641 FTEs work in the Netherlands (2018: 3,059); the remaining FTEs work abroad.

6 Depreciation, amortization and impairment

	Note	2018	2019
Property, plant and equipment	13	(117)	(167)
Internal-use software	15	(5)	(7)
Other intangible assets	15	(94)	(99)
Development costs	15	(15)	(16)
Total		**(231)**	**(288)**

7 Other business income and expenses

	2018	2019
Result on disposal of businesses:		
• Income	3	1
• Expense	(0)	-
Result on disposal of fixed assets:		
• Income	5	11
• Expense	(0)	(0)
Result on other remaining businesses:		
• Income	24	10
• Expense	(16)	(8)
Other business income and expenses	**15**	**15**
Total other business income	32	22
Total other business expense	(17)	(8)

In 2019, the result on disposal of fixed assets includes a EUR 7 million income from the sale of real estate in Professional, in China. In 2019, the net result on other remaining businesses includes a EUR 5 million (2018: EUR 20 million) income from the movements in the provisions with Royal Philips originating from the separation.

In 2018, other remaining businesses also includes a EUR 8 million expense related to a legal provision for an adverse outcome of an appeal on a jury verdict in Professional, in the United States of America. The state Supreme Court has agreed to hear one of our three bases for appeal.

8 Financial income and expenses

	Note	2018	2019
Interest income		16	14
Change in fair value of financial assets at fair value through profit or loss	29	1	1
Other financial income		4	2
Financial income		**20**	**17**
Interest expense	23	(30)	(22)
Interest on the net defined-benefit obligation	25	(13)	(14)
Interest expense on lease liability	23	(1)	(7)
Change in fair value of financial assets at fair value through profit or loss	29	-	(1)
Net foreign exchange losses		(9)	(4)
Other financial expenses	23	(7)	(12)
Financial expenses		**(61)**	**(60)**
Financial income and expenses		**(41)**	**(43)**

9 Income taxes

	2018	2019
Netherlands	123	175
Foreign	244	184
Income before taxes	**367**	**360**
Netherlands:		
• Current tax benefit (expense)	-	(17)
• Deferred tax benefit (expense)	(48)	(15)
Total tax expense (Netherlands)	**(48)**	**(32)**
Foreign:		
• Current tax benefit (expense)	(62)	(68)
• Deferred tax benefit (expense)	4	7
Total tax expense (foreign)	**(58)**	**(61)**
Income tax expense	**(106)**	**(93)**

	2018	2019
Current tax expense	(82)	(86)
Prior year benefit (expense)	20	1
Current tax expense	**(62)**	**(85)**

	2018	2019
Origination and reversal of temporary differences	0	(6)
Change in tax losses, tax credits and temporary differences recognized	(5)	(4)
Tax rate changes	(18)	3
Prior year benefit (expense)	(21)	(0)
Deferred income tax expense	**(44)**	**(8)**

The 2018 prior year current income tax benefit and prior year deferred income tax expense are largely offsetting and mostly related to the same events.

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% (2018: 25%). A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

	2018	%	2019	%
Income before taxes	**367**		**360**	
Weighted average statutory income tax rate	(78)	(21)%	(79)	(22)%
Non-deductible expenses	(19)	(5)%	(16)	(4)%
Tax incentives and exempt income	31	8%	20	6%
Deferred tax expense related to derecognition of deferred tax assets - net	(3)	(1)%	(8)	(2)%
Changes in the liability for uncertain tax positions	(10)	(3)%	(6)	(2)%
Prior year tax expense	(1)	(0)%	0	0%
Changes in tax rates	(18)	(5)%	3	1%
Other	(7)	(2)%	(7)	(2)%
Income tax expense recognized in Consolidated statement of income	**(106)**	**(29)%**	**(93)**	**(26)%**

The weighted average statutory income tax rate increased by 1% in 2019 compared to 2018.

The effective income tax rate is higher than the weighted average statutory income tax rate in 2019 and 2018, mainly due to non-deductible expenses and a deferred tax expense related to derecognition of deferred tax assets, set off by tax incentives and exempt income. Changes in tax rates include EUR 6 million non-cash tax benefit (2018: EUR 17 million expense) related to the revaluation of the deferred tax assets following the statutory tax rate change in the Netherlands.

The effective tax rate was 26% in 2019 (2018: 29%), which is higher than the statutory income tax rate of 25% in the Netherlands. The difference is primarily due to non-deductible expenses, deferred tax expense related to derecognition of deferred tax assets, set off by tax incentives and exempt income.

Recognized deferred tax assets and liabilities

	Assets	Liabilities	Net
2019			
Intangible assets	134	(89)	44
Property, plant and equipment [1]	25	(54)	(29)
Inventories	43	(1)	42
Other receivables and assets	52	(9)	43
Provisions for pensions and other post-retirement	72	1	73
Provisions for termination benefits	8	–	8
Other provisions	32	(0)	32
Other liabilities [1]	86	(33)	53
Deferred tax assets on tax attributes [2]	90	–	90
Total allocations	**541**	**(185)**	**356**
Set-off of deferred tax	(157)	157	0
Net deferred tax assets	**384**	**(28)**	**356**
2018			
Intangible assets	150	(100)	50
Property, plant and equipment	22	(11)	11
Inventories	42	(0)	42
Other receivables and assets	51	(3)	47
Provisions for pensions and other post-retirement	82	-	82
Provisions for termination benefits	15	-	15
Other provisions	35	-	35
Other liabilities	40	(40)	-
Deferred tax assets on tax attributes [2]	98	-	98
Total allocations	**535**	**(155)**	**380**
Set-off of deferred tax	(136)	136	0
Net deferred tax assets	**399**	**(19)**	**380**

[1] Includes an impact of IFRS 16 adoption.
[2] Tax loss carryforwards (including tax credit carryforwards).

The net deferred tax assets of EUR 356 million (2018: EUR 380 million) consists of deferred tax assets of EUR 384 million (2018: EUR 399 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 28 million (2018: EUR 19 million) in countries with a net deferred tax liability position. An amount of EUR 89 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 2019 and 2018 were as follows:

	Balance as at January 1	Recog-nized in income	Other	Balance as at December 31
2019				
Intangible assets	50	5	(10)	44
Property, plant and equipment	11	9	(49)	(29)
Inventories	42	1	(0)	42
Other receivables	47	(4)	(0)	43
Provisions:				
• pensions and other post-retirement benefits	82	(8)	(1)	73
• termination benefits	15	(7)	(0)	8
• other provisions	35	(3)	(0)	32
Other liabilities	0	4	48	53
Tax loss carryforwards (including tax credit carryforwards)	98	(5)	(3)	90
Net deferred tax assets	**380**	**(8)**	**(16)**	**356**

	Balance as at January 1	Recog-nized in income	Other	Balance as at December 31
2018				
Intangible assets	78	(26)	(2)	50
Property, plant and equipment	8	3	0	11
Inventories	34	7	1	42
Other receivables	55	(8)	0	47
Provisions:				
• pensions and other post-retirement benefits	86	(7)	3	82
• guarantees	-	-	-	-
• termination benefits	24	(8)	(1)	15
• other provisions	35	0	0	35
Other liabilities	-	(0)	0	0
Tax loss carryforwards (including tax credit carryforwards)	93	(5)	10	98
Net deferred tax assets	**413**	**(44)**	**11**	**380**

The column “Other” includes foreign currency translation differences, acquisitions, the impact of the remeasurement of the deferred tax balances relating to Pensions and other post-retirement benefits and the impact of the adoption of IFRS 16.

At December 31, 2019, the temporary differences associated with investments, including potential income tax consequences on dividends for which no deferred tax liabilities are recognized, aggregate to EUR 272 million (2018: EUR 262 million).

At December 31, 2019, net operating loss carryforwards expire as follows:

Expiry year operating loss carryforwards

Total	2020	2021	2022	2023	2024	After 2024 but not unlimited	Unlimited
786	4	-	1	4	4	93	679

At December 31, 2019, the amount of operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet was EUR 487 million (2018: EUR 456 million).

Out of EUR 487 million, an amount of EUR 475 million should not be limited in time, EUR 2 million will expire by 2024, and EUR 9 million expires after 2024, but carryforward is limited in time.

At December 31, 2019, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 60 million (2018: EUR 86 million).

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

	2018	2019
Income tax receivable under other current assets	35	48
Income tax receivable under other non-current assets	8	8
Income tax payable under current liabilities	(15)	(22)
Income tax payable under non-current liabilities	(48)	(52)

Tax risks

Signify is exposed to tax uncertainties. These uncertainties include, among others, the following:

Transfer pricing uncertainties

Signify has issued transfer pricing directives, which are in accordance with international guidelines, such as those of the Organization of Economic Co-operation and Development (OECD). As transfer pricing has a cross-border effect, potential adjustments by local tax authorities on implemented transfer pricing procedures in a country may have an impact on results in another country. In order to reduce the transfer pricing uncertainties, monitoring procedures are carried out by Group Tax and Internal Audit to safeguard the correct implementation of the transfer pricing directives.

Tax uncertainties on general and specific service agreements and licensing agreements

Due to the centralization of certain activities in a limited number of countries (such as research and development, IT, group functions and head office), costs are also centralized. Consequently, these costs and/or revenues must be allocated to the beneficiaries, i.e. the various Signify entities. This could lead to discussions with local tax authorities if they do not accept these charges. For that purpose, service contracts such as intra-group service agreements and licensing agreements are signed with Signify group entities. Tax authorities review these intra-group service and licensing agreements and may reject the implemented intra-group charges.

Tax uncertainties due to permanent establishments

Signify may encounter tax uncertainties, due to permanent establishments in countries where new operations are started or business models are altered. This is because when operations in a country involve a foreign Signify organization, there is a risk that tax claims will arise in the former country as well as in the latter country.

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

With regard to these uncertainties, income tax payable is recognized when it is probable that additional taxes will be due. In addition, related to similar uncertainties, an indemnification liability to Royal Philips of EUR 55 million (2018: EUR 61 million) and an indemnification receivable of EUR 18 million (2018: EUR 18 million) is recorded. The total net liability decreased in 2019 by EUR 6 million mainly due to settlements and expirations.

10 Earnings per share

	2018	2019
Net income attributable to shareholders of Signify N.V.	263	262
Weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	134,305,672	126,028,474
Plus incremental shares assumed from conversions of:		
• Performance shares	20,128	986,802
• Conditional shares	301,500	563,335
• Restricted shares	44,299	47,788
Diluted weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	134,671,599	127,626,399
Net income attributable to shareholders per ordinary share in EUR		
• Basic	1.95	2.08
• Diluted	1.95	2.06

11 Acquisitions and divestments

Signify completed several acquisitions in 2019, being Once and iLOX, WiZ Connected and Zhejiang Klite Lighting Holdings Co., Ltd. (Klite).

The summary of the major classes of consideration transferred and the recognized provisional amounts of assets acquired, and liabilities assumed at the acquisition date for all acquisitions Signify made in 2019 are presented below, the majority coming from the acquisition of Klite:

	Klite	Other	Total
Tangible assets	58	1	59
Intangible assets	25	11	36
Total non-current assets	**83**	**12**	**95**
Trade and other receivables	101	2	103
Other current assets	26	1	27
Cash and cash equivalents	81	0	81
Total current assets	**208**	**3**	**211**
Total assets	**291**	**15**	**306**
Non-current liabilities	15	1	16
Current liabilities	159	4	163
Total net assets acquired	**117**	**10**	**127**
Consideration, including deferred			209
Non-controlling interest			60
Goodwill on acquisition (provisional)			**142**

Opening balance positions are subject to final purchase price adjustments, expected to be processed in the course of 2020. The main pending final purchase price adjustments concern Goodwill, Other Intangible assets, Rights to use assets and Deferred tax liabilities. The non-controlling interest was determined as the sum of the non-controlling interest's proportional interest in the identifiable net assets acquired.

Goodwill is recognized in the amount of EUR 142 million which at the date of this report is treated as non-deductible for tax purposes and mostly represents expected synergies from combining operations.

Acquisition of Klite

On July 26, 2019, Signify announced that it had entered into an agreement with Zhejiang Klite Lighting Holdings Co., Limited to acquire 51% in Zhejiang Klite Lighting Holdings Co., Ltd. (Klite). Klite is China-based company and is one of the leading providers of high-quality, cost-efficient LED lamps and luminaires. The transaction is expected to bring additional scale and innovation power to Klite Lighting, allowing it to generate further cost efficiencies and enhance its product development, including connected lighting offerings. This will strengthen Klite's position to serve branded and private label customers with innovative and cost-efficient products. The transaction was completed on October 1, 2019 as from which date Klite was consolidated within Signify.

As from the acquisition date, Klite's contribution to Signify's sales and net income was not material. Would the acquisition have taken place on January 1, 2019, sales and net income for Signify would have been EUR 223 million and EUR 25 million respectively.

Signify is party to a contractual arrangement that gives it a right, in certain circumstances, to purchase the remaining non-controlling interest in Klite. As at balance sheet date, the fair value of this right is considered to be not material.

No divestments, material for Signify, took place in 2019.

12 Interests in entities

Interests in subsidiaries

Wholly owned 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
Signify (China) Investment Co., Ltd.	China
Signify GmbH	Germany
Signify Holding B.V.	Netherlands
Signify Hong Kong Limited	Hong Kong
Signify Netherlands B.V.	Netherlands
Signify North America Corporation	United States of America
Signify Poland Sp. z.o.o.	Poland

Signify 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 and the company's share of profit and other comprehensive income of the associates are shown in the Consolidated balance sheets, Consolidated statement of income and Consolidated statement of comprehensive income.

13 Property, plant and equipment

	Land and buildings	Machinery and instal-lations	Other equipment	Prepay-ments and construc-tion in progress	Total
Balance as at January 1, 2018					
Cost	576	1,375	346	35	2,333
Accumulated depreciation / impairment	(339)	(1,225)	(277)	-	(1,841)
Book value	**237**	**150**	**69**	**35**	**492**
Change in book value:					
Capital expenditure	2	2	10	47	60
Assets available for use	17	22	23	(63)	0
Acquisitions	-	-	-	1	1
Sales and disposals	(0)	(0)	(0)	(0)	(1)
Divestments and transfers to assets classified as held for sale	(4)	(2)	0	-	(6)
Depreciation	(27)	(43)	(35)	-	(104)
Impairment	(4)	(6)	(3)	(1)	(13)
Translation differences and other movements	(2)	3	1	0	2
Total changes	**(17)**	**(24)**	**(3)**	**(16)**	**(60)**
Balance as at December 31, 2018					
Cost	564	1,293	353	19	2,230
Accumulated depreciation / impairment	(344)	(1,167)	(287)	-	(1,798)
Book value	**220**	**126**	**66**	**19**	**431**
Adoption of IFRS 16	209	-	12	2	222

	Land and buildings	Machinery and instal-lations	Other equipment	Prepay-ments and construc-tion in progress	Total
Restated book value as at January 1, 2019	**428**	**126**	**78**	**21**	**654**
Change in book value:					
Capital expenditure	36	4	17	42	99
Assets available for use	8	21	13	(43)	-
Acquisitions	40	15	-	4	59
Additions	83	41	30	4	158
Of which right-of-use assets	39	-	9	-	48
Sales and disposals	(2)	(0)	(2)	(0)	(5)
Divestments and transfers to assets classified as held for sale	(4)	(0)	(1)	-	(6)
Of which right-of-use assets	(2)	-	-	-	(2)
Depreciation	(77)	(37)	(39)	-	(154)
Of which right-of-use assets	(52)	-	(10)	-	(62)
Impairment	(4)	(8)	(1)	-	(13)
Of which right-of-use assets	(1)	-	(1)	-	(2)
Translation differences and other movements	9	1	1	(1)	9
Of which right-of-use assets	6	-	-	-	6
Total changes	4	(4)	(12)	2	(10)
Balance as at December 31, 2019					
Cost	859	1,334	393	23	2,609
Accumulated depreciation / impairment	(426)	(1,212)	(327)	0	(1,965)
Book value	**432**	**122**	**66**	**23**	**644**
Of which right-of-use assets	198	(0)	11	2	210

The impairment losses were mainly driven by manufacturing footprint rationalization. Additions of right-of-use assets include remeasurement originating from lease renewals which were not considered probable per implementation date.

14 Leases

The carrying amounts, depreciation and additions to right-of-use assets recognized are disclosed in note 13, Property, plant and equipment. The movements of the related Lease liability are disclosed in note 23, Debt.

The following are the amounts recognized in profit or loss and cash flow:

	Note	2019
Interest expense on lease liability	8	(7)
Total cash outflow for leases	4, 8, 23	**(99)**

15 Intangible assets

	Goodwill	Customer relationship	Technology based	Brand names	Product development	Software	Other	Total
Balance as at January 1, 2018								
Cost	2,381	1,142	339	331	167	27	12	4,399
Accumulated depreciation / impairment	(687)	(807)	(252)	(234)	(141)	(15)	(6)	(2,143)
Book value	**1,694**	**335**	**87**	**97**	**26**	**12**	**6**	**2,256**
Change in book value:								
Additions	-	-	5	-	15	7	-	26
Amortization	-	(63)	(18)	(13)	(13)	(5)	(1)	(113)
Acquisitions	12	1	2	-	-	0	-	15
Impairment	-	-	-	-	(1)	(0)	-	(1)
Translation differences and other movements	65	10	2	3	0	(0)	0	80
Total changes	**77**	**(52)**	**(10)**	**(9)**	**1**	**1**	**-**	**7**
Balance as at December 31, 2018								
Cost	2,475	1,176	355	339	152	31	12	4,540
Accumulated depreciation / impairment	(704)	(894)	(278)	(251)	(125)	(18)	(7)	(2,277)
Book value	**1,771**	**282**	**77**	**88**	**27**	**13**	**5**	**2,264**
Change in book value:								
Additions	-	-	9	-	16	4	0	29
Amortization	-	(66)	(19)	(13)	(13)	(6)	(1)	(118)
Acquisitions	142	20	15	1	-	0	0	178
Impairment	-	-	-	-	(3)	(1)	-	(3)
Translation differences and other movements	29	6	0	1	0	0	(0)	36
Total changes	**172**	**(40)**	**5**	**(11)**	**-**	**(2)**	**(1)**	**122**
Balance as at December 31, 2019								
Cost	2,651	1,212	375	343	163	36	11	4,791
Accumulated depreciation / impairment	(708)	(970)	(293)	(267)	(136)	(25)	(7)	(2,405)
Book value	**1,943**	**242**	**82**	**77**	**28**	**11**	**4**	**2,386**

Goodwill

During the year ended December 31, 2019, a translation difference of EUR 31 million was mainly due to the change in the USD/EUR rate which impacted the goodwill denominated in USD.

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 Professional is considered to be significant in comparison to the total book value of goodwill of Signify at December 31, 2018 and December 31, 2019. The goodwill allocated to each of the cash-generating units as of December 31, 2018, and December 31, 2019, is presented below.

	2018	2019
Lamps	60	62
LED	80	211
Professional	1,534	1,573
Home	96	96
Book value	**1,771**	**1,943**

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 2019, the estimated recoverable amount of the cash-generating units tested exceeded the carrying value of the units. Therefore, no impairment loss was recognized.

Key assumptions used in the impairment tests for the units were sales growth rates, EBITA and the rates used for discounting the projected cash flows. These cash flow projections were determined using management's internal forecasts that cover an initial period from 2020 to 2022 that matches the period used for our strategic process. Projections were extrapolated with declining growth rates for a period of five years, after which a terminal value was calculated. The sales growth rates and EBITA used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages.

For Professional, EBITA is expected to increase over the projection period as a result of volume growth and cost efficiencies. Cash flow projections for 2019 and 2018 were based on the key assumptions included in the table below:

In %

	Compound sales growth rate[1]			
	Initial forecast period	Extrapolation period	Used to calculate terminal value[2]	Pre-tax discount rates
Professional 2019	3.5	2.4	0.3	10.6
Professional 2018	4.7	3.4	2.7	10.6

1 Compound sales growth rate is the annualized steady growth rate over the forecast period.
2 In 2018, the historical long-term growth rate was only applied to the first year after the five-year extrapolation period, after which no further growth was assumed for the terminal value calculation. From 2019 onwards the long-term growth rate is applied to all residual periods. This change had no significant impact on the headroom.

The results of the annual impairment test of Professional have indicated that a reasonably possible change in key assumptions would not cause the value in use to fall to the level of the carrying value.

Other intangible assets

The additions for 2019 contain internally generated assets of EUR 15 million for product development, and EUR 3 million for software.

The capitalized product development costs and software, for which amortization has not yet commenced, amounted to EUR 15 million as of December 31, 2019 (December 31, 2018: EUR 16 million).

As of December 31, 2019, the carrying amount of the customer relationships originating from the Genlyte acquisition in 2007 was EUR 108 million (USD 121 million) with a remaining amortization period of 3.1 years (2018: EUR 144 million, USD 165 million; 4.1 years).

16 Objectives, policies and processes for managing capital

There were no major changes in Signify's approach to capital management during the year. The company manages capital based upon the following measures: working capital, net debt and free cash flow. These measures are used by the company to evaluate the capital efficiency of its businesses and are managed via comparison with the target ranges set by management.

For the net debt analysis refer to note 23, Debt.

Free cash flows for the year ended December 31, 2019 and comparative information are presented below:

	2018	2019
Cash flows from operating activities [1]	381	599
Cash flows from investing activities	(90)	(145)
Cash flows before financing activities	**291**	**454**
Cash flows from operating activities	381	**599**
Net capital expenditures:		
• Additions of intangible assets	(26)	**(29)**
• Capital expenditures on property, plant and equipment	(57)	**(58)**
• Proceeds from disposal of property, plant and equipment	8	**16**
Free cash flows	**306**	**529**

[1] 2019 includes a positive impact of EUR 71 million from IFRS 16 adoption. Refer to note 1, Basis of preparation.

Working capital position as at December 31, 2019 and comparative information are presented below:

	2018	2019
Inventories	878	874
Trade and other receivables	1,231	1,223
Trade and other payables [1]	(1,507)	(1,684)
Other working capital items [2]	(66)	(25)
Working capital [3]	**536**	**388**

[1] Includes accrued liabilities which previously was on a separate line.
[2] Includes contract liabilities which was previously in trade and other payables.
[3] 2019 includes EUR (35) million of Klite.

17 Inventories

	2018	2019
Raw materials	315	297
Work in progress [1]	3	2
Finished goods [1]	561	575
Total	**878**	**874**

[1] Prior year has been revised to conform to the current year presentation.

The write-down of inventories to net realizable value amounted to EUR 23 million for the year ended December 31, 2019 (2018: EUR 30 million).

18 Trade and other receivables

	2018	2019
Trade receivables	1,167	1,159
Other receivables	64	64
Total receivables, net of value allowance [1]	**1,231**	**1,223**

[1] 2019 includes EUR 69 million of Klite.

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

	2018	2019
Current	1,059	1,076
Overdue 1-30 days	38	25
Overdue 31-180 days	53	44
Overdue >180 days	16	14
Trade receivables, net	**1,167**	**1,159**

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

	2018	2019
Balance as at December 31	**(85)**	
Adoption of IFRS 9	(16)	
Balance as at January 1	**(100)**	**(101)**
Additions charged to expense	(19)	(4)
Reclassifications	0	0
Utilizations	9	7
Releases	11	0
Translation differences and other movements	(1)	(5)
Balance as at December 31	**(101)**	**(103)**

As per December 31, 2019, the loss allowance for accounts receivable included allowances for individually impaired receivables of EUR 89 million (2018: EUR 84 million).

19 Trade and other payables

	2018	2019
Payables to suppliers	953	1,047
Amounts payable to employees	168	184
Customer rebates	163	217
Marketing and sales related	69	60
Materials and fixed assets related	60	41
Other payables	94	134
Trade and other payables [1]	**1,507**	**1,684**

[1] 2019 includes EUR 174 million of Klite.

Other payables include deferred considerations for acquisitions of business (EUR 38 million), communication and IT related accruals, consultancy costs payable and other payables.

20 Other assets

	2018	2019
Prepayments	33	38
Contract assets	37	48
Other assets	95	140
Total	**165**	**225**
From which current	107	161
From which non-current	58	64

Other assets mainly include indirect taxes receivable or recoverable and indemnification balances resulting from the separation from Royal Philips and past business combination transactions.

Indemnification receivable of EUR 18 million (2018: EUR 18 million) included in Other assets mainly relates to the indemnification for tax liabilities arising from the separation from Royal Philips.

21 Other liabilities

	2018	2019
Contract liabilities	119	137
Other tax liabilities	62	60
Other liabilities	122	120
Total	**303**	**317**
From which current	179	183
From which non-current	125	135

Out of the total amount of EUR 119 million recognized in contract liabilities at the end of 2018 (beginning of 2018: EUR 108 million), EUR 48 million has been recognized as revenue for the period ended December 31, 2019 (2018: EUR 44 million). The non-current portion of contract liabilities is recognized over time over the duration of the contract, generally beyond 1 and up to 15 years.

Other liabilities mainly relate to separation from Royal Philips. In 2016, as part of the agreement in relation to the separation from Royal Philips, indemnities and guarantees were provided by major subsidiaries of Signify to Royal Philips. Conversely, certain major subsidiaries of Royal Philips have provided guarantees to Signify. Indemnification payable of EUR 55 million (2018: 61 million) mainly relates to uncertain tax positions indemnified in the separation from Royal Philips.

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, 2019, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2018: 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, 2019, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

A proposal will be submitted to the 2020 Annual General Meeting of Shareholders to pay a dividend of EUR 1.35 per ordinary share, in cash, from the 2019 net income.

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

Treasury shares

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

Number of shares

	2018	2019
Balance as at January 1	**139,174,079**	**126,095,073**
Purchase of treasury shares	(13,155,762)	(240,000)
Delivery of treasury shares	76,756	83,558
Balance as at December 31	**126,095,073**	**125,938,631**

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):

	2018	2019
Shares acquired	1,300,000	240,000
Average market price	EUR 25.52	EUR 25.64
Amount paid	EUR 33 million	EUR 6 million
Shares delivered	76,756	83,558
Average price (FIFO)	EUR 31.71	EUR 32.84
Cost of delivered shares	EUR 2 million	EUR 3 million
Total shares in treasury at year-end	**2,249,165**	**2,405,607**
Total cost	**EUR 65 million**	**EUR 68 million**

To reduce the share capital, the following transactions took place in 2018. There were no transactions in 2019.

	2018	2019
Shares acquired	11,855,762	
Average market price	EUR 24.51	
Amount paid	EUR 291 million	
Reduction of capital stock (shares)	14,655,762	
Reduction of capital stock	EUR 380 million	
Total shares in treasury at year-end	**0**	
Total cost	**EUR 0 million**	

Limitations in the distribution of shareholders' equity

As at December 31, 2019, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 189 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 178 million, other reserves of EUR 3 million and unrealized gains related to currency translation differences of EUR 7 million. The unrealized losses related to cash flow hedges of EUR 7 million, although qualifying as legal reserves, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2019, amounted to EUR 1,993 million (2018: EUR 1,853 million).

The legal reserve required by Dutch law of EUR 178 million relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2018, the limitations in distributable reserves were EUR 188 million related to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 184 million and other reserves of EUR 3 million. The unrealized losses related to currency translation differences of EUR 29 million and cash flow hedges of EUR 9 million, although qualifying as legal reserves, reduce the distributable amount by their nature.

23 Debt

	2018	2019
Facility (EUR)	737	740
Facility (USD)	437	446
Lease liabilities[1]	18	252
Other debt	62	20
Subtotal	**1,253**	**1,458**
Bank overdrafts	12	7
Gross debt	**1,265**	**1,465**
Cash and cash equivalents	(676)	(847)
Net debt (cash)	**589**	**618**
Total equity	**2,119**	**2,324**
Net debt and total equity	2,709	2,942
Net debt divided by net debt and total equity (in %)	22%	21%
Total equity divided by net debt and total equity (in %)	78%	79%

[1] 2019 includes impact from IFRS 16 adoption. Refer to note 1, Basis of preparation.

Movements of debt were as follows:

	Facility (EUR)	Facility (USD)	Lease liabilities	Other debt	Bank overdrafts	Total
Balance as at January 1, 2018	**736**	**417**	**19**	**120**	**17**	**1,309**
Financing cash flows:						
• New borrowings	-	-	-	28	-	28
• Repayment	-	-	(7)	(80)	-	(87)
Translation difference		19	-	(3)	(1)	15
Other movements	1	1	6	(3)	(4)	-
Balance as at December 31, 2018	**737**	**437**	**18**	**62**	**12**	**1,265**
Balance as at January 1, 2019	**737**	**437**	**18**	**62**	**12**	**1,265**
Adoption of IFRS 16	-	-	259	-	-	259
Restated balance as at January 1, 2019	**737**	**437**	**277**	**62**	**12**	**1,524**
Financing cash flows:						
• New borrowings	-	-	-	12	-	12
• Repayment	-	-	(73)	(54)	-	(127)
Translation difference	-	9	2	1	-	11
Other movements	3	1	46	-	(4)	45
Balance as at December 31, 2019	**740**	**446**	**252**	**20**	**7**	**1,465**

In May 2016, Signify entered into a five-year term loan facility agreement. The amounts of the term facility were EUR 740 million and USD 500 million. The term loan facility was repayable at the end of the term and could also be repaid without penalty at the option of Signify during the term. The Term Loan Facility beared interest at a variable rate based on the relevant applicable EURIBOR and LIBOR respectively with zero floor plus a margin. The margin was 0.65% as of December 31, 2019 (2018: 0.65%) and was subject to semi-annual adjustment based on the level of the Net Leverage Ratio (term loan facility agreement of 2016).

These borrowings contained customary undertakings. The undertakings included, among others, a negative pledge that provided, subject to certain exceptions, that no member of Signify may grant security over its assets without the consent of the lenders, and a restriction on subsidiaries of the Company (other than the obligors) incurring additional financial indebtedness. There were also restrictions (subject to certain exceptions and thresholds) on engaging in acquisitions, disposals and reorganizations.

The Term and Revolving Credit Facilities Agreement also included a financial covenant which had been suspended as of year-end 2017. The facilities were guaranteed by the Company and certain subsidiaries of the Company incorporated in the Netherlands, the United States, Germany, the People's Republic of China, Poland and Belgium.

The Company replaced the existing financing facility with a Term and Revolving Credit Facilities Agreement in January 2020. For further details please refer to note 30, Events after the balance sheet date.

In November 2019, Signify entered into a USD 1.4 billion bridge loan facility agreement to finance the acquisition of Cooper Lighting Solutions. The initial maturity date of this facility is 15 October 2020, which may be extended at the option of the issuer for two additional periods of six months each, providing that Signify maintains a Net Leverage Ratio (bridge loan facility agreement) of no greater than 3.50x. The Net Leverage Ratio (bridge loan facility agreement) may temporarily increase to 4.0x within 12 months of the closing of the Cooper Lighting Solutions acquisition or other material acquisitions. The covenant does not apply if the issuer has at least one investment grade rating. As of December 31, 2019 Signify did not have any amounts drawn under this facility.

24 Provisions

	Restructuring-provisions	Environmental Provisions	Product warranty	Other provisions	Total
Balance as at January 1, 2018	**145**	**129**	**46**	**164**	**485**
Additions	103	9	25	46	183
Utilizations	(139)	(19)	(29)	(36)	(223)
Reclassifications	0	0	-	(7)	(7)
Releases	(11)	(6)	(0)	(20)	(37)
Changes in discount rate	-	1	-	0	1
Accretion	-	1	-	2	3
Translation differences and other movements	1	0	(0)	0	1
Balance as at December 31, 2018	**99**	**115**	**42**	**149**	**406**
Short-term	81	20	25	42	168
Long-term	18	95	17	107	237
Balance as at January 1, 2019	**99**	**115**	**42**	**149**	**406**
Adoption of IFRS 16	-	-	-	(9)	(9)
Restated balance as at January 1, 2019	**99**	**115**	**42**	**140**	**396**
Additions	82	6	44	34	166
Utilizations	(97)	(15)	(45)	(32)	(188)
Reclassifications	2	(0)	-	(0)	1
Releases	(9)	(2)	(0)	(8)	(19)
Changes in discount rate	-	3	-	1	4
Accretion	-	1	-	1	2
Translation differences and other movements	0	1	0	1	2
Balance as at December 31, 2019	**78**	**110**	**41**	**136**	**365**
Short-term	61	21	25	41	149
Long-term	17	89	16	94	216

Restructuring

The provision for restructuring relates primarily to restructuring programs in Lamps, mainly in Belgium and the Netherlands. Signify expects the provision will be utilized mainly within next year.

Environmental provision

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

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 year.

Other

Other provisions mainly comprise of provisions for legal claims, 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

			2018			2019
Country	Obligation	Plan assets	Net liability	Obligation	Plan assets	Net liability
Germany	229	(15)	214	236	(15)	221
Unites States	599	(427)	172	625	(505)	120
Other countries	137	(49)	88	166	(70)	96
Total countries	**965**	**(491)**	**474**	**1,027**	**(590)**	**437**

United States

The defined-benefit qualified pension plan in the US covers certain hourly workers and salaried workers hired before January 1, 2005. The plan is closed for new entrants and since 2016 no further benefit accruals are taking place. Employees only accrue benefits in a defined-contribution plan. The company pays the administration cost and contributions to cover the funding deficit of the qualified pension plan. The plan assets are governed by an Investment Committee. The company also has an unfunded non-qualified pension plan in place for higher salaried employees and a post-retirement welfare plan.

The company made contributions to the qualified pension plan of USD 20 million in 2019 as part of a three-year funding plan (2017-2019) to improve the funding level and to lower future interest expenses. The contribution was lower than the originally anticipated amount of USD 50 million due to better than anticipated asset returns and gain on anticipated longevity.
In 2020, the company will review whether a further contribution is needed. Signify expects in 2020 cash outflows in relation to unfunded defined-benefit plans of EUR 8 million.

For the funding of the deficit of the US qualified pension plan the company 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 7 million. This plan has been closed for new entrants since January 1, 2018. Since 2016, the company 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, the company has an unfunded liability of EUR 214 million as at December 31, 2019.
For the unfunded plans, Signify expects cash outflows of EUR 18 million in 2020.

Cash outflows for the defined-benefit plans in countries other than the USA and Germany are expected to be in total EUR 12 million in 2020.

Risks related to defined-benefit plans

The defined-benefit plans expose the company to various demographic and economic risks, such as longevity, investment, currency and interest rate risks and, in some cases, inflation risk. The latter plays a role in the assumed wage increase and in some smaller plans where indexation is mandatory.

The larger plans are either governed by independent boards, committees or trustees who have a legal obligation to evenly balance the interests of all stakeholders and operate under the local regulatory frameworks. These boards and trustees are responsible for and have full discretion over the investment strategy of the plan assets, in general they manage pension fund risks by diversifying the investments of plan assets and by (partially) matching interest rate risk of liabilities.

The company 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

			2018			2019
	Obligation	Plan assets	Net liability	Obligation	Plan assets	Net liability
Balance as at January 1	**1,036**	**(540)**	**496**	**965**	**(491)**	**474**
Service cost	10	-	10	9	-	9
(Negative) past service cost	(5)	-	(5)	0	-	0
Admin expenses paid	-	1	1	-	1	1
Settlements	(1)	0	(1)	0	-	0
Recognized in employee benefit expenses	4	1	5	9	1	10
Interest (cost) / income	30	(17)	13	34	(20)	14
Included in Statement of income	**34**	**(16)**	**18**	**43**	**(19)**	**24**
Actuarial gains / (losses)						
• Demographic assumptions	(1)	-	(1)	(23)	-	(23)
• Financial assumptions	(47)	58	11	118	(105)	13
• Experience adjustment	0	-	0	4	-	4
Exchange rate differences	25	(20)	5	14	(9)	5
Included in Statement of comprehensive income	**(23)**	**38**	**15**	**113**	**(114)**	**(1)**
Employee contributions	1	(1)	-	2	(2)	-
Employer contributions	-	(31)	(31)	-	(26)	(26)
Benefits paid						
• Benefits paid directly by employer	(32)	-	(32)	(32)	-	(32)
• Benefits paid from plan assets	(58)	58	-	(61)	61	-
Reclassifications	7	1	8	(3)	1	(2)
Other	**(82)**	**27**	**(55)**	**(94)**	**34**	**(60)**
Balance as at December 31	**965**	**(491)**	**474**	**1,027**	**(590)**	**437**

Plan assets allocation

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

	2018	2019
Debt securities	351	401
Equity securities	76	97
Other	64	92
Total assets	**491**	**590**

The assets in 2019 contain 14% unquoted assets. Plan assets in 2019 do not include property occupied by or financial instruments issued by the company.

Some 86% 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 14% of the total plan assets is mainly the market value of insured pension benefits.

Assumptions

The mortality tables used for the company's major schemes are:

- US: Base table PRI-2012 White Collar mortality table, projected forward with future mortality improvements according to Scale MP-2019.
- Germany: Richttafeln 2018 G K. Heubeck.

For the US, compared to the mortality table used for the 2018 valuation, the new table used for the 2019 valuation shows a lower degree of longevity improvement.

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

In %

	2018	2019
Discount rate	3.5	2.6
Pension cost increases	0.3	0.4
Healthcare cost increases	0.5	0.5
Wage increases	1.0	0.5

The average duration of the defined-benefit obligation of the defined-benefit plans is 10.5 years. For the defined-benefit plans in the US and Germany, the average duration is respectively 10.3 years and 10.1 years. The average discount rates for the plans in these countries are respectively 3.0% and 0.7%. The pension cost increase rate assumption for the German defined-benefit plans is 1.75%.

Sensitivity analysis

The table below illustrates the approximate impact on the defined-benefit obligation if the company 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.

	2018	2019
Increase		
Discount rate (1% movement)	(88)	(95)
Wage change (1% movement)	6	7
Pension indexation change (1% movement)	23	24
Longevity (see explanation)	30	36
Healthcare cost change (1% movement)	8	9
Decrease		
Discount rate (1% movement)	100	110
Wage change (1% movement)	(6)	(7)
Pension indexation change (1% movement)	(21)	(22)

Longevity also impacts the post-employment defined-benefit obligation. In the above sensitivity table, the impact on the defined-benefit obligation of a further 10% decrease in the assumed rates of mortality for the company's major schemes is illustrated. A 10% decrease in assumed mortality rates equals improvement of life expectancy by six months to a year.

26 Related party transactions

As from December 31, 2018 Royal Philips is no longer consider a related party since at this date, Mr. Abhijit Bhattacharya stepped down from the Supervisory Board of Signify and Royal Philips lost significant influence on Signify.

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

Total share-based compensation costs for Signify for the period ended December 31, 2019 were EUR 21 million (period ended December 31, 2018: EUR 29 million), of which EUR 18 million was related to the Signify LTI Plan (2018: EUR 20 million), and the remaining was related to the Royal Philips LTI Plan.

Signify Long-term Incentive Plan

Under the Signify Long-term Incentive Plan (LTI Plan), which is equity settled, eligible employees are granted both conditional shares and performance shares. Conditional shares have a three-year cliff vesting period and will vest if a grantee is still employed with the company at the vesting date.

Vesting of performance shares is conditional on the achievement of performance conditions measured over a period of three years. The performance condition measurement is based on three measures, Relative Total Shareholder Return (TSR) (40% of the shares), Free Cash Flow (FCF) (40% of the shares) and Sustainability (20% of the shares). In addition, vesting is conditional to the grantee still being employed with Signify at the vesting date.

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.

At the end of 2017, Signify introduced a one-time special performance share award to a limited group of key employees below the level of the Board of Management. The purpose of this award is to focus these key leaders on achieving the company's 2019 operational profitability objective. This award is equity settled.

Under the terms of the employee stock purchase plan (ESPP), employees are eligible to purchase a limited number of Signify shares at discounted prices through payroll withholdings.

Signify performance shares

The fair value of shares granted with the market performance condition of relative TSR is measured based on Monte Carlo simulation. The closing share price at grant date is adjusted for the present value of expected dividends during the vesting period, as participants are not compensated for Signify dividend payouts. Monte Carlo simulation takes into account market conditions expected to impact relative Total Shareholders' Return performance in relation to selected peers and the following weighted-average assumptions:

Assumptions used in Monte-Carlo simulation for valuation in %

	2019
Risk-free interest rate	(0.7)%
Expected share price volatility	30%

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 Profitability related measurements are non-market performance conditions. Fair value of shares granted under FCF, Sustainability, and Profitability objective conditions equals the closing share price on the grant date, adjusted for the present value of expected dividends during the vesting period.

The amount calculated as an expense for shares granted with a non-market performance condition is adjusted for actual performance.

A summary of Signify performance shares movements and outstanding balance as of December 31, 2019 and 2018, is presented below.

Signify performance shares

	2018		2019	
	Shares	Weighted average grant-date fair value	Shares	Weighted average grant-date fair value
EUR-denominated				
Balance as at January 1	**830,343**	**36.05**	**1,778,120**	**26.73**
Granted	1,219,112	21.35	846,821	24.70
Vested	(42,416)	37.54	(18,819)	34.17
Forfeited	(228,919)	29.87	(221,069)	25.04
Performance adjustment	-	-	(485,062)	22.16
Balance as at December 31	**1,778,120**	**26.73**	**1,899,991**	**27.12**

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, 2019, estimated unrecognized costs related to non-vested performance shares amounted to EUR 15 million. These costs are expected to be recognized over a weighted-average period of 1.8 years.

Signify conditional shares

Fair value of conditional shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

A summary of Signify conditional shares movements and outstanding balance as of December 31, 2019 and 2018, is presented below.

Signify conditional shares

	2018		2019	
	Shares	Weighted average grant-date fair value	Shares	Weighted average grant-date fair value
EUR-denominated				
Balance as at January 1	**339,188**	**29.21**	**536,785**	**25.46**
Granted	285,080	21.63	328,940	21.85
Vested	(11,584)	28.89	(12,011)	27.24
Forfeited	(75,899)	27.36	(53,071)	23.95
Performance adjustment	-	-	-	-
Balance as at December 31	**536,785**	**25.46**	**800,643**	**24.05**

On December 31, 2019, estimated unrecognized costs related to non-vested conditional shares amounted to EUR 6 million. These costs are expected to be recognized over a weighted-average period of 1.7 years.

Signify restricted shares

Fair value of restricted shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

In 2019, Signify granted 41,167 restricted shares with weighted average grant date fair value of EUR 22.49.

On December 31, 2019, estimated unrecognized costs related to non-vested restricted shares amounted to EUR 0.3 million. These costs are expected to be recognized over a weighted-average period of 0.7 years.

Royal Philips Long-term Incentive Plan

Until the settlement of the IPO in 2016, eligible employees of Signify as well as members of the Board of Management participated in grants made under the Royal Philips Long-term Incentive Plan. Those employees remained to participate in the Royal Philips LTI Plan, which was equity settled, until the shares from the last grant in 2016 vested in 2019. The expense for Signify, calculated and accounted for in accordance with IFRS 2, equals the recharge from Royal Philips to Signify. Signify is not charged for any additional costs upon delivery of shares. At the end of 2019 all expenses related to Royal LTI Plan were fully recognized in Consolidated Income statement. After the settlement of the IPO no new grants have been made or will be made by Royal Philips to employees of Signify.

28 Information on remuneration

In 2019, the total remuneration costs relating to the members of Key Management amounted to EUR 6,589,964 (2018: EUR 5,948,463).

Remuneration of the Board of Management

In 2019, the total remuneration costs relating to the members of the Board of Management amounted to 6,007,275 (2018: EUR 5,341,023).

Remuneration costs of Key Management - the Board of Management in EUR

	2018	2019
Salary / Base compensation	1,961,000	2,010,000
Annual incentive [1]	813,346	1,035,150
Long-term equity-based incentive [2]	1,642,753	2,074,252
Pension allowances	635,933	639,546
Pension scheme costs	77,124	79,140
Other compensation [3, 4]	210,867	169,187
Total costs	**5,341,023**	**6,007,275**

[1] The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.
[2] Costs of performance shares (Signify and Royal Philips) and restricted shares (Royal Philips only) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date. Royal Philips restricted shares all vested prior to January 1, 2016. However, members of the Board of Management are entitled to receive premium shares if shares from restricted share rights release are kept for another 3 years. In 2018 E.H.E. Rondolat and C.L. van Schooten sold the Royal Philips premium shares they received. As a result, they do not hold any Royal Philips premium shares since.
[3] The stated amounts mainly concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share 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.
[4] Comparatives were revised to also include the housing allowance of EUR 94.288 for S.L.A. Rougeot that was accidentally not included in the table in Note 30 to the Consolidated financial statements for 2018.

For further information on remuneration costs, see chapter 9, Remuneration report, of this Annual Report.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 582,689 (2018: EUR 607,440).

Remuneration of Key Management - the Supervisory Board in EUR

	2018 [1]	2019 [1]
Membership	429,375	420,000
Committees	115,565	113,500
Other compensation [2]	62,500	49,189
Total costs	**607,440**	**582,689**

1 The amounts mentioned in this table are excluding VAT.
2 The amounts mentioned under other compensation relate to the fee for (inter-)continental travel.

29 Financial risk management

Signify has exposure to the following risks from its use of financial instruments, as they arise in the normal course of business: interest rate risk, credit risk, liquidity risk, commodity price risk, currency and country risk. This note comprises the disclosures on Signify's financial risk management objectives, policies and procedures to monitor and manage these risks.

The summary of all financial assets and liabilities, including their classification and measurement and fair value hierarchy is presented below:

	Carried at	Gross amount recognized on the balance sheet	Amounts not offset on the balance sheet, but are subject to master netting arrangements	Net amount	Fair value hierarchy level	Estimated fair value [1]
Balance as at December 31, 2018						
Non-current financial assets	amortised cost	45	-	45		45
Unquoted equity shares	fair value (FVOCI)	2	-	2	3	2
Trade and other receivables	amortised cost	1,231	-	1,231		1,231
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	28	(16)	12	2	28
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	2	-	2	3	2
Cash and cash equivalents		676	-	676		676
Debt	amortised cost	(1,265)	-	(1,265)	2	(1,265)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(22)	16	(6)	2	(22)
Trade and other payables	amortised cost	(1,507)	-	(1,507)		(1,507)
Balance as at December 31, 2019						
Non-current financial assets	amortised cost	44	-	44		44
Unquoted equity shares	fair value (FVOCI)	3	-	3	3	3
Trade and other receivables	amortised cost	1,223	-	1,223		1,223
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	16	(14)	2	2	16
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	2	-	2	3	10
Cash and cash equivalents		847	-	847		847
Debt	amortised cost	(1,465)	-	(1,465)	2	(1,465)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(20)	14	(6)	2	(20)
Trade and other payables	amortised cost	(1,663)	-	(1,663)		(1,663)
Contingent consideration	fair value (FVTPL)	(21)	-	(21)	3	(21)

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, including bank overdrafts, trade and other payables are not materially different from their carrying value.

The estimated fair value of financial instruments has been determined by Signify using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by Signify upon maturity or disposal. The use of market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The following hierarchy is applied to classify the financial assets and liabilities:

Level 1

Instruments included in Level 1 are comprised primarily of listed equity investments classified as financial assets at fair value via Other comprehensive income investees and financial assets designated at fair value through profit and loss. 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.

During 2019 and 2018 under Level 3, no material fair value changes were recorded in Consolidated statement of comprehensive income.

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 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, 2019, Signify had a ratio of fixed-rate debt to total outstanding debt of approximately 17% (2018: 1%). Higher ratio in 2019 was mainly attributable to IFRS 16 adoption impact.

A sensitivity analysis conducted in January 2020 shows that if interest rates were to increase instantaneously by 1% from their level of December 31, 2019, with all other variables held constant, the annualized net interest expense would remain unchanged. This impact was based on the outstanding net floating debt position as of December 31, 2019.

Liquidity risk

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

Liquidity risk for the company is monitored through the Treasury Risk Committee which tracks the development of the actual cash flow position for the company 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 [1]		
			Between	
		Less than	1 and 5	Over 5
	Total	1 year	years	years
Debt, including bank overdrafts	1,213	27	1,186	0
Interest on debt [2]	29	22	7	0
Trade and other payables	1,644	1,644	0	0
Lease liability	252	70	139	43
Derivative liabilities	20	19	1	0
Deferred considerations	40	38	2	0
Off-balance sheet commitments	195	32	130	33
Purchase obligations	62	27	35	0
Contractual cash obligations	**3,454**	**1,879**	**1,500**	**76**
Revolving credit facility (RCF)	500			
Bridge facility	1,249			

1 Obligations in this table are undiscounted.
2 Interest on Long-term debt is based on floating rate adjustments according to market expectations.

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 the liquidity risk for the company. Signify pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs by the company. The table below shows details of cash and cash equivalents and bank overdrafts as of the reporting date:

	2018	2019
Cash at banks and in hand	302	423
Short-term deposits	336	394
Other cash equivalents	38	30
Cash and cash equivalents	**676**	**847**
Bank overdrafts	(12)	(7)
Cash and cash equivalents and bank overdrafts	**664**	**840**

As announced in October 2019, Signify intends to acquire Cooper Lighting Solutions from Eaton Corporation PLC for a cash consideration of USD 1.4 billion (approx. EUR 1,270 million) on a cash and debt-free basis. The closing of the transaction is still subject to regulatory approvals and other customary conditions and is expected to take place in the first quarter of 2020. The acquisition is expected to be fully financed with debt, with committed bridge financing arranged. In case the transaction will not go through, the seller is entitled to receive a termination fee under certain conditions.

Signify has a EUR 500 million revolving credit facility that can be used for general purposes and USD 1.4 billion bridge facility dedicated solely for the mentioned acquisition of Cooper Lighting Solutions. As of December 31, 2019, Signify did not have any amounts drawn under either facility.

Currency risk

Currency risk is the risk that reported financial performance, or the fair value or future cash flows of a financial instrument, will fluctuate because of changes in foreign exchange rates. Signify operates in many countries and currencies and therefore currency fluctuations may inevitably impact its financial results. The company is exposed to currency risk in the following areas:

- Transaction exposures related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions.
- Financing exposure arising from foreign currency intercompany and external debt and deposits.
- Translation exposure of net income in foreign entities.
- Translation exposure of foreign currency denominated equity invested in consolidated companies.
- Translation exposure to equity interests in non-functional-currency investments in associates and financial assets at fair value.

It is Signify's policy to reduce the volatility caused by foreign currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign currency sales and purchases. In general, net anticipated exposures are hedged during a period of 15 months in layers of 20% up to a hedge ratio of 80%, using derivatives.

Signify's policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Signify from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

The following table outlines the estimated nominal value in millions of EUR for transaction exposure and related hedges for Signify's most significant currency exposures:

	Receivables / Sales		Payables / Purchases	
	Exposure	Hedges	Exposure	Hedges
Balance as at December 31				
Exposure currency				
CNY	46	(40)	(1,324)	838
USD	319	(238)	(480)	336
GBP	163	(97)	(14)	8
SEK	65	(37)	(1)	–
EUR [1]	90	(90)	(25)	25
CHF	57	(33)	(2)	2
AUD	52	(30)	(6)	5
NOK	41	(22)	–	–
SGD	39	(22)	(2)	1
NZD	34	(20)	(7)	5
RON	30	(16)	–	–
CZK	27	(16)	(3)	2
Others	24	(24)	(37)	37
Total 2019	**986**	**(685)**	**(1,901)**	**1,258**
Total 2018	801	(526)	(1,976)	1,151

[1] EUR exposures in non EUR denominated functional currencies.

As of December 31, 2019, a loss of EUR 8 million was deferred in equity as a result of these hedges (2018: loss of EUR 10 million). The result deferred in equity will be released to earnings mostly during 2020 at the time when the related hedged transaction affects the Consolidated statement of income. During 2019, EUR nil million (2018: 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, 2019 was an unrealized liability of EUR 5 million (2018: asset EUR 3 million). An instantaneous 10% increase in the value of the euro against all currencies, with all other variables held constant, would lead to a decrease of EUR 53 million in the value of the derivatives.
This decrease includes a loss of EUR 17 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 loss of EUR 36 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.

Signify does not currently hedge the foreign exchange exposure arising from equity interests measured at fair value through Other comprehensive income and in non-functional currency investments in associates.

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, 2019, Signify had EUR 2 million of commodity derivatives recognized in the Statement of financial position (2018: EUR 2 million).

Change of the commodity price for 10% will lead to the commodity derivatives value change of EUR 5 million.

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Signify trade and other receivables and contract assets. To have better insights into the credit exposures, Signify performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap, including reducing payment terms, cash on delivery, prepayments and pledges on assets.

Signify invests available cash and cash equivalents and enters into financial derivative instruments with various financial institutions and is exposed to credit risk with these counterparties. Signify does not enter into any financial derivative instruments to protect against default by financial institutions.

Where possible, Signify requires all financial institutions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a solid credit rating from generally accepted rating agencies. Signify also regularly monitors the development of the credit risk of its financial counterparties.

As of December 31, 2019, the company held 63% of cash at banks and at hand and short-term deposits in ‘A-’ or stronger rated banks based on Standard and Poor’s rating (2018: 72%).

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, 2019, Signify had country risk exposure of EUR 1.5 billion in the United States, EUR 1.1 billion in the Netherlands and EUR 543 million in China (including Hong Kong). Countries where the risk exceeds EUR 200 million but was less than EUR 500 million are Belgium (EUR 481 million), Poland (EUR 411 million), and Saudi Arabia (EUR 236 million). Countries where the risk exceeded EUR 50 million but was less than EUR 200 million are Spain, Mexico, Canada, France and India. 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.

The impending withdrawal of the United Kingdom from the European Union (Brexit) generates uncertainty. For Signify the most considerable impact of Brexit and country risk in general comes in the form of foreign exchange volatility risk embedded in operational results and consequently landing in hedging strategies through changes in the forecasts.

30 Events after the balance sheet date

In January 2020, Signify replaced its existing term loan debt of EUR 740 million and USD 500 million with a new term loan structure consisting of EUR 400 million and USD 275 million with a maturity of three years (January 2023) and EUR 340 million and USD 225 million with a maturity of five years (January 2025). The existing EUR 500 million revolving credit facility (RCF) was refinanced for the same amount with a five-year maturity plus two one-year extension options. The new term loans and RCF agreement includes a financial covenant providing that Signify maintains a net leverage ratio of no greater than 3.5x. The net leverage ratio may temporarily increase to 4.0x within 12 months of the closing of the Cooper Lighting Solutions acquisition or other material acquisitions. The covenant does not apply if the company has at least one investment grade rating.

No other subsequent events occurred that are material to Signify.

15 Signify N.V. financial statements

Introduction

Statutory financial statements

The sections Consolidated financial statements and Signify N.V. financial statements contain the statutory financial statements of Signify N.V. (the ‘Company’).

A description of the activities of the Company, its subsidiaries and Company structure are included in the Consolidated financial statements. The corporate seat of the Company is in Eindhoven, the Netherlands, and its registered office is at High Tech Campus 48, 5656 AE Eindhoven. Signify N.V. is registered in the Commercial Register of the Chamber of Commerce under number 65220692.

A list of all Signify N.V. subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), forms part of the notes to the statutory financial statements and is deposited at the Chamber of Commerce in Eindhoven, the Netherlands.

The Company, incorporated as a private limited liability company on February 1, 2016, was converted into a public company with limited liability on May 31, 2016. On May 15, 2018, the Company changed its name from Philips Lighting N.V. to Signify N.V.

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply the International Financial Reporting Standards (IFRS) as endorsed by the European Union, in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 2, Significant accounting policies, of the Consolidated financial statements and are deemed incorporated and repeated herein by reference. The implementation of IFRS 16 had no impact on the Company financial statements. 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 financial position before appropriation of results

Statement of financial position before appropriation of results in millions of EUR
As at December 31

	Note		2018		2019
Non-current assets					
Financial assets	C		3,737		2,375
Total non-current assets			**3,737**		**2,375**
Current assets					
Other assets			-		1
Trade and other receivables			1		-
Total current assets			**1**		**1**
Total assets			**3,738**		**2,376**
Shareholders' equity	D				
Share capital		1		1	
Share premium		2,179		2,195	
Legal reserve: currency translation differences		(29)		7	
Legal reserve: cash flow hedges		(9)		(7)	
Legal reserve: other		187		181	
Other reserve: treasury shares		(65)		(68)	
Other reserve: retained earnings		(486)		(390)	
Net income		263		262	
Total shareholders' equity			**2,041**		**2,181**
Non-current liabilities					
Debt	E		740		-
Total non-current liabilities			**740**		**-**
Current liabilities					
Debt	E		939		178
Other liabilities			17		17
Total current liabilities			**956**		**195**
Total liabilities and shareholders' equity			**3,738**		**2,376**

15.2 Statement of income

Statement of income in millions of EUR
For the years ended December 31

	Note	2018	2019
Other expenses		(1)	(3)
Financial expenses		(5)	(1)
Share in results of subsidiaries		268	266
Net income	A	**263**	**262**

15.3 Statement of changes in equity

Statements of changes in equity
in millions of EUR

			Legal reserves			Other reserves			
	Share capital	Share premium	Currency translation differ-ences	Cash flow hedges	Other	Treasury shares	Retained earnings	Net income	Total share-holders' equity
Balance as at January 1, 2018	**1**	**1,975**	**(87)**	**1**	**187**	**(124)**	**(17)**	**294**	**2,231**
Appropriation of prior year result	-	-	-	-	-	-	294	(294)	-
Net income	-	-	-	-	-	-	-	263	263
Net current period change	-	-	58	(10)	-	-	(9)	-	39
Legal reserves reclassifications	-	187	-	-	(1)	-	(187)	-	-
Dividend distributed	-	-	-	-	-	-	(171)	-	(171)
Purchase of treasury shares	-	-	-	-	-	(324)	(15)	-	(339)
Cancellation of treasury shares	(0)	-	-	-	-	380	(380)	-	-
Delivery of treasury shares	-	(2)	-	-	-	2	(0)	-	-
Share-based compensation plans	-	20	-	-	-	-	-	-	20
Funding by (distribution to) Royal Philips	-	(1)	-	-	-	-	-	-	(1)
Balance as at December 31, 2018	**1**	**2,179**	**(29)**	**(9)**	**187**	**(65)**	**(486)**	**263**	**2,041**
Balance as at January 1, 2019	**1**	**2,179**	**(29)**	**(9)**	**187**	**(65)**	**(486)**	**263**	**2,041**
Adoption of IFRS 16 (net of tax) [1]	-	-	-	-	-	-	(12)	-	(12)
Restated balance as at January 1, 2019	**1**	**2,179**	**(29)**	**(9)**	**187**	**(65)**	**(497)**	**263**	**2,030**
Appropriation of prior year result	-	-	-	-	-	-	263	(263)	-
Net income	-	-	-	-	-	-	-	262	262
Net current period change	-	-	35	2	-	-	4	-	41
Legal reserves reclassifications	-	-	-	-	(6)	-	6	-	-
Dividend distributed	-	-	-	-	-	-	(164)	-	(164)
Purchase of treasury shares	-	-	-	-	-	(6)	(0)	-	(6)
Delivery of treasury shares	-	(2)	-	-	-	3	(1)	-	-
Share-based compensation plans	-	18	-	-	-	-	-	-	18
Balance as at December 31, 2019	**1**	**2,195**	**7**	**(7)**	**181**	**(68)**	**(390)**	**262**	**2,181**

1 Refer to note 1, Basis of preparation.

15.4 Notes to the Company financial statements

In millions of EUR unless otherwise stated

A Statement of income

Share in results of subsidiaries represents the share of the Company in the results of its affiliated companies. Other expenses mainly relate to the remuneration of the directors of the Company and the supervisory board. These costs are partly recharged to the subsidiaries of the Company. Financial expenses mostly relate to the interest paid on the intercompany loan with Signify Holding B.V. until its settlement in February 2019.

B Audit fees

A summary of Audit fees from Ernst & Young Accountants LLP is shown below.

	2018	2019
Audit fees [1]	5.2	5.4
• consolidated financial statements	3.3	3.2
• statutory financial statements	1.8	2.2
Audit-related fees	0.4	0.4
• sustainability assurance	0.3	0.3
• other	0.1	0.1
Total [2]	**5.6**	**5.8**

[1] The audit fees included in 2019 represent the fees in relation to the audit of the 2019 financial statements.
[2] Fees charged by the Dutch organization of EY were EUR 2.6 million (2018: 2.4 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.

	2018	2019
Balance as at January 1	**3,458**	**3,737**
Dividend received	(38)	(1,677)
Share in results of subsidiaries	268	266
Translation differences	58	35
Other movements	(11)	14
Balance as at December 31	**3,737**	**2,375**

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, 2019, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2018: 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, 2019, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

A proposal will be submitted to the 2020 Annual General Meeting of Shareholders to pay a dividend of EUR 1.35 per ordinary share, in cash, from the 2019 net income.

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

Treasury shares

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

Number of shares

	2018	2019
Balance as at January 1	**139,174,079**	**126,095,073**
Purchase of treasury shares	(13,155,762)	(240,000)
Delivery of treasury shares	76,756	83,558
Balance as at December 31	**126,095,073**	**125,938,631**

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):

	2018	2019
Shares acquired	1,300,000	240,000
Average market price	EUR 25.52	EUR 25.64
Amount paid	EUR 33 million	EUR 6 million
Shares delivered	76,756	83,558
Average price (FIFO)	EUR 31.71	EUR 32.84
Cost of delivered shares	EUR 2 million	EUR 3 million
Total shares in treasury at year-end	**2,249,165**	**2,405,607**
Total cost	**EUR 65 million**	**EUR 68 million**

To reduce the share capital, the following transactions took place in 2018. There were no transactions in 2019.

	2018	2019
Shares acquired	11,855,762	
Average market price	EUR 24.51	
Amount paid	EUR 291 million	
Reduction of capital stock (shares)	14,655,762	
Reduction of capital stock	EUR 380 million	
Total shares in treasury at year-end	**0**	
Total cost	**EUR 0 million**	

Legal reserves

As of December 31, 2019, legal reserves related to unrealized gains in currency translation of EUR 7 million, unrealized losses related to cash flow hedges of EUR 7 million and included in other, the 'affiliated companies' reserve of EUR 178 million and other reserves of EUR 3 million.

The item 'affiliated companies' reserve relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As of December 31, 2018, legal reserves related to unrealized losses in currency translation of EUR 29 million, unrealized losses related to cash flow hedges of EUR 9 million and included in other, the 'affiliated companies' reserve of EUR 184 million and other reserves of EUR 3 million.

Limitations in the distribution of shareholders' equity

As at December 31, 2019, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 189 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 178 million, other reserves of EUR 3 million and unrealized gains related to currency translation differences of EUR 7 million. The unrealized losses related to cash flow hedges of EUR 7 million, although qualifying as legal reserves, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2019, amounted to EUR 1,993 million (2018: EUR 1,853 million).

As at December 31, 2018, the limitations in distributable reserves were EUR 188 million related to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 184 million and other reserves of EUR 3 million. The unrealized losses related to currency translation differences of EUR 29 million and cash flow hedges of EUR 9 million, although qualifying as legal reserves, reduce the distributable amount by their nature.

E Debt

In February 2019, upon receiving a dividend from its subsidiary, the Company immediately settled its intercompany loan of EUR 740 million and an amount of EUR 937 million included in current debt.

As per December 31, 2019 current debt related to other debt to subsidiaries was EUR 178 million (2018: EUR 939 million).

F Employees

The number of persons employed by the Company at year-end 2019 was three (2018: 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, please refer to 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 1,211 million as of December 31, 2019, (2018: EUR 1,085 million).

There have been no other general guarantees or credit guarantees given on behalf of unconsolidated companies and third-parties.

For corporate income tax purposes, the Company is the parent of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the corporate income tax liabilities of the tax unity.

H Events after the balance sheet date

For the disclosure of events after the balance sheet date, reference is made to note 30, Events after the balance sheet date which is deemed incorporated and repeated herein by reference.

On February 25, 2020, 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 19, 2020.

February 25, 2020

Board of Management
Eric Rondolat
Stéphane Rougeot
René van Schooten

Supervisory Board
Arthur van der Poel
Gerard van de Aast
Eelco Blok
Rita Lane
Jill Lee

16 Sustainability statements

16.1 Approach to sustainability reporting

Sustainability is central to our company strategy and purpose. We strive to balance financial, environmental and social considerations and maximize long-term value creation along these three dimensions.

We have made our approach towards long-term value creation transparent by preparing this Annual Report with key elements of the International Integrated Reporting Council's (IIRC) Integrated Reporting framework and reporting in accordance with the GRI Sustainability Reporting Standards.

At the core of our reporting approach is the value creation model. This model shows how our business activities depend on various financial, environmental, and social resources that are converted to outputs. Our activities and their outputs lead to outcomes in terms of the impact made on our stakeholders and society at large. Since 2017, Signify communicates its impacts in monetary terms, enabling more effective and efficient decision making and giving a holistic view on our most prominent risks and opportunities. It also provides further transparency to our stakeholders on company performance. By publishing the results of our analysis and being transparent on the methodology, we strive to contribute to developing a global standard for impact analysis.

As part of our continuing commitment to the United Nations Sustainable Development Goals (SDGs), we report on our contribution to six SDGs: 3 - Good health and wellbeing; 7 - Affordable and clean energy; 8 - Decent work and economic growth; 11 - Sustainable cities and communities; 12 - Responsible consumption and production; and 13 - Climate action. These SDGs link directly to our purpose to create brighter lives and a better world.

Our external auditor Ernst & Young Accountants LLP (EY) has provided reasonable (highest level) assurance on our sustainability performance and sustainability statements in this Integrated Annual Report. Signify is a frontrunner in this field. To read the combined assurance statement, please refer to chapter 17, Combined independent auditor's report, of this Annual Report.

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

Our materiality assessment is the first step towards defining our strategy. By identifying future trends and understanding stakeholders' perspectives at a global and local level, we are better able to manage the risks and opportunities that could impact our ability to create value over the long term.

We evaluate materiality along two axes. The vertical axis captures the importance of each topic for external and internal stakeholders. The horizontal axis captures our company's significant economic, environmental, and social impacts, both positive and negative. Assessing both aspects enables us to prioritize and focus on the most relevant issues in terms of our efforts as well as reporting progress in this Annual Report. Our materiality assessment was conducted using the GRI Standards' principles for defining report content.

Continuous stakeholder engagement

Through dialogue with key stakeholders, we have gained significant insights into how to create value and anticipate risks. Accordingly, we are better equipped to understand society's needs and translate them into our company strategy and goals. Working closely with key stakeholders strengthens our ability to address their needs and concerns. Through different engagement channels, we inform our stakeholders about our activities, the measures taken and the results.

Stakeholders considered most relevant to our success include customers, employees, investors, suppliers, governments, and civil society organizations. These stakeholders are most likely to be impacted by our activities and have the most influence on achieving our commitments. In addition to our strategic conversations with these stakeholders, we hold memberships and are active in many organizations including the Carbon Disclosure Project (CDP), the World Economic Forum (WEF), the Responsible Business Alliance (RBA), and The Climate Group. For more information on the work we perform with stakeholders, please refer to sub-section 16.3.6 Working with stakeholders of this Annual Report.

Ongoing stakeholder engagement activities (non-exhaustive)

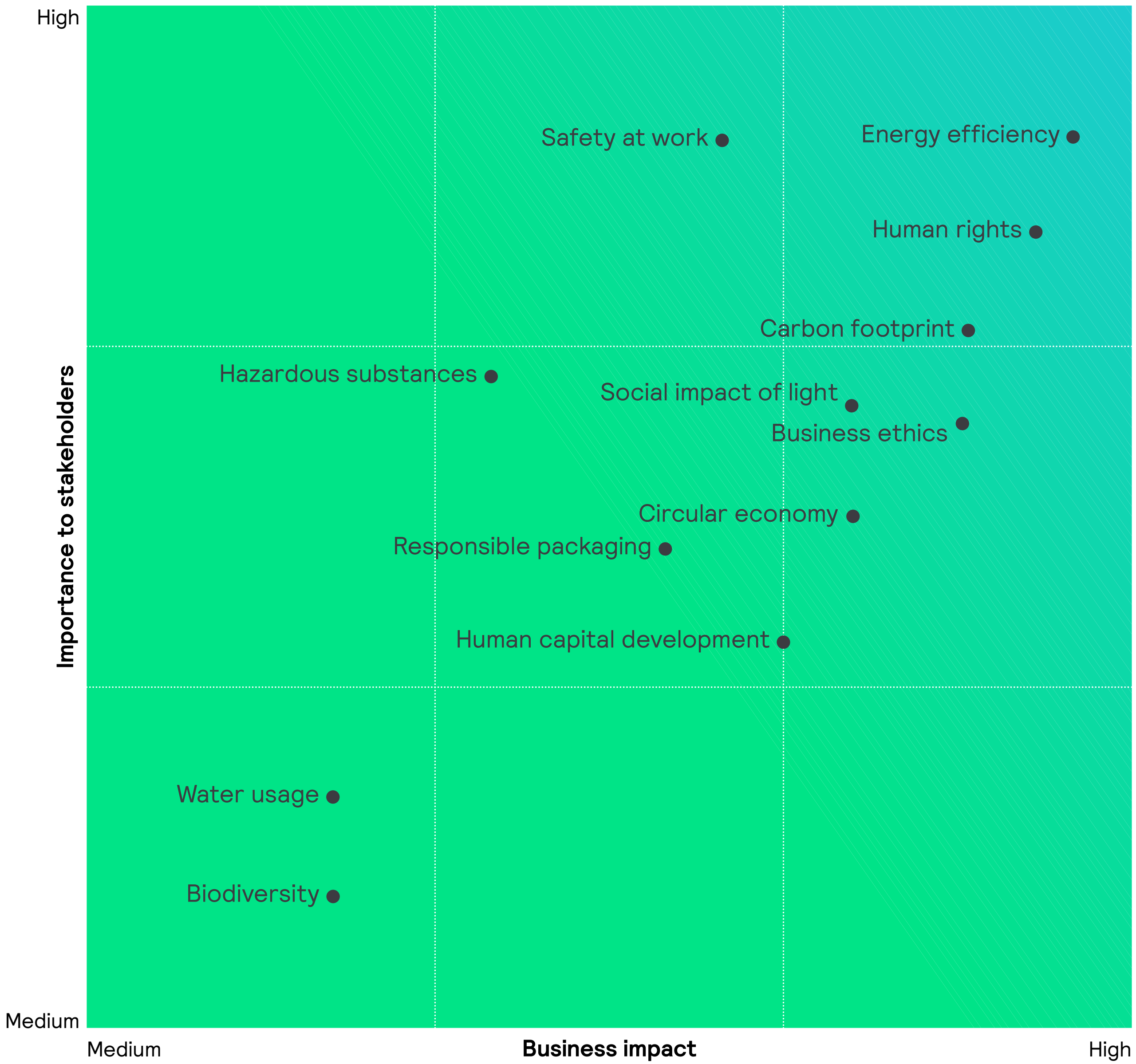
Stakeholder group	Stakeholder engagement processes	Exemplary topics discussed
Customers	Joint (research) projects, business development, lean value chain projects, consumer panels, Net Promoter Scores, training centers, social media, customer surveys, key account management (several times per week), sustainability exchanges with customers	(Sustainable) revenues and innovation Satisfaction rates ESG-performance
Employees	Regular meetings, quarterly Team surveys, bi-annual employee development process, quarterly update webinars	Strategic alignment sessions Training & Development Engagement
Investors and analysts	Investor roadshows, (ESG) investor conferences, investor and analysts calls, in-house (ESG) meetings, investor meetings, analyst dinners, IR mailbox, investor surveys	Strategic alignment sessions ESG-performance
Suppliers	Supplier development and quality activities including topical training sessions (4 times per year), supplier forums, industry working groups such as EPRM and RBA, and the commodity management, supplier quality and procurement engineering functions	Sustainability performance Peer-learning
Governments, municipalities	Issues meetings, annual innovation experience, research projects, policy and legislative developments, business development	Sustainable cities Energy efficiency Sustainable innovation
Civil society organizations	Partnerships with NGOs (several times per week), cross-sector (multi-stakeholder) projects, supplier sustainability stakeholder day, our social investment program, the Signify Foundation	Social impact of light Sustainable operations Sustainable revenues

Our 2019 materiality assessment

We use different sources of information to identify possible material topics. These include media and trend analyses as well as continuous conversations with strategic stakeholders. To prioritize these topics, Signify organizes dedicated stakeholder engagement activities every year. In 2019, this consisted of an online survey reaching out to 352 internal and external stakeholders, a series of qualitative interviews, and internal strategic workshops.

As an outcome of the assessment, Signify's materiality matrix has been simplified for better clarity by grouping detailed sub-topics under over-arching material topics. The detailed mapping can be found in the table below. Energy efficiency, Human rights and Carbon footprint are considered our most material topics. Safety at work remains very important and is given a high priority with strong processes in place. Biodiversity has been added and the topics of Circular Economy, Packaging and Social impact of light have increased in importance.
The result of the materiality assessment has been reviewed by the Leadership Team and the Supervisory Board. The details of our 2019 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 strategy, our contribution to the SDGs and our material topics and their boundaries.

	Priority SDG	Material topic	Sub-topic included	Our contribution	Boundary
Brighter Lives	8 DECENT WORK AND ECONOMIC GROWTH	**Human capital development**	• Employee engagement • Diversity & Inclusion • Talent management	16.3.1 Human capital development	• Own operations • Own operations • Own operations
		Human rights	• Human rights in our operations • Living wages • Social responsibility in our supply chain • Responsible mineral sourcing	16.3.2 Human rights	• Own operations • Own operations / Supply chain • Supply chain • Supply chain
		Safety at work	• Occupational Health & Safety	16.3.3 Safety at work	• Own operations
		Business Ethics	• Acting with integrity • Product quality • Share-performance & pay-out policy • Responsible procurement practices • Responsible tax policy • Big data and customer privacy	16.3.4 Acting with integrity 16.3.4 Acting with integrity 11.6 Share performance, 11.4 Capital allocation 16.3.2 Human rights 14.6 – Note 9 Income taxes 12.5 Report risks factors	• Own operations • Use phase • Own operations • Own operations • Own operations • Use phase
	3 GOOD HEALTH AND WELL-BEING; 11 SUSTAINABLE CITIES AND COMMUNITIES	**Social impact of light**	• Human centric lighting • Food availability and quality • Access to light	16.3.5 Social impact of light	• Use phase • Use phase • Use phase
Better World	7 AFFORDABLE AND CLEAN ENERGY	**Energy efficiency**	• Energy efficiency of our products, systems and services	16.4.1 Energy efficiency of our products, systems and services	• Use phase
	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**Circular economy**	• Circular lighting • Weight & materials • Waste management	16.4.3 Circular economy	• Use phase • Own operations / Use phase • Own operations
		Responsible packaging	• Responsible packaging	16.4.4 Responsible packaging	• Use phase
		Hazardous substances	• Products substances • Regulated substances in production processes	16.4.5 Hazardous substances	• Use phase • Own operations
		Water usage	• Water usage	16.4.6 Water usage	• Own operations
	13 CLIMATE ACTION	**Carbon footprint**	• Operational carbon footprint • Carbon footprint of our supply chain	16.4.2 Carbon footprint and energy	• Own operations • Supply chain
		Biodiversity	• Biodiversity	16.4.7 Biodiversity	• Own operations

In the sections that follow we explain how we manage social and environmental material topics in our operations, supply chain and products.

16.1.2 Sustainability governance

The Sustainability function, including Environment, Health & Safety, headed by Nicola Kimm, consists of global, regional and local sustainability professionals and falls under the responsibility of the Chief Strategy & Marketing Officer, Maria Letizia Mariani. Progress is reviewed on a quarterly basis by the Board of Management and the Leadership Team. During these meetings progress on strategic programs is reviewed and corrective actions taken when necessary.

Progress is also reviewed with the Supervisory Board on an annual basis. In addition, the results of our sustainability programs are communicated on a quarterly basis to Signify employees and on our website for external stakeholders.

Sustainability programs are embedded in the Signify organization and ways of working. Examples of departments that implement sustainability programs include innovation, manufacturing, sourcing, and logistics. Targets on sustainability are set both at a corporate level and at a Business Group level.

16.1.3 Program targets

Our sustainability commitments are grouped under our sustainability program Brighter Lives, Better World, launched in September 2016. Targets of this program have been set for a five-year period, until the end of 2020. Changes in targets, policies, definitions or scope are specified annually. There are no changes in targets, policies, definitions or scope to be reported in 2019.

Additionally, to ensure our efforts are in line with the targets of the Paris Agreement, we have set science-based targets in relation to our emissions. For more details, please refer to the sub-section 16.4.2 Carbon footprint and energy of this Annual Report. As part of our operational carbon footprint program, we committed to 100% carbon neutrality by the end of 2020 and to using only electricity from renewable sources by 2020.

Signify has a target of reaching 5 million lives with renewably powered lighting and supporting 10,000 people with technical and business skills development in 2020 (baseline 2017). For more details, please refer to the sub-section 16.3.5 Social impact of light, of this Annual Report.

Program targets

Program	Target 2020
Sustainable revenues	80% of revenues
LED lamps & luminaires	>2 billion LED lamps & luminaires delivered cumulatively (baseline 2015)
Operational carbon footprint	Net 0 kt CO_2 emissions
Electricity	100% of electricity from renewable sources
Waste to landfill	Zero waste to landfill
Health & Safety	Total recordable case rate of <0.35
Sustainable Supply Chain	Minimum performance rate of 90%

Science-Based Targets

	Baseline	Target 2030
Carbon emissions from scope 1 and scope 2	2015	70% reduction
Carbon emissions from scope 3 (use of product)	2015	30% reduction

16.1.4 Reporting standards

This report has been prepared in accordance with the GRI Standards: Comprehensive option. We also used additional company disclosures.

An overview of the information on data definitions, measurements and any uncertainties inherent to measurements can be found in the Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads. These supplements also include more information on our 2019 materiality assessment, a GRI Content Index presenting the overview of the GRI disclosures, a mapping to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and to the E.U. Directive on non-financial information.

New Signify ventures and acquisitions are included in environmental and social disclosures to the extent that the integration process of these ventures has been sufficiently finalized. The normative integration period is two years. Divestures completed before December 31 of the book-year are excluded from environmental and social reporting.

In 2019, Signify re-committed to the United Nations Global Compact to advance 10 universal principles in the areas of human rights, labor, the environment, and anti-corruption efforts. This report also serves as our annual Communication on Progress (COP) towards abiding by these principles.

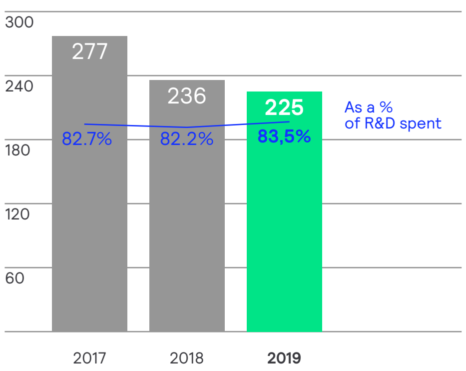
16.2 Sustainable Innovation

Signify integrates sustainable principles in its innovation programs. In recent years, Signify extended these principles to include design rules for a circular economy as well as additional benefits beyond illumination, such as social benefits. 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 annually updated benchmark. Our eight SFAs are:

- **Energy –** increasing energy efficiency of products, systems and services
- **Packaging –** reducing packaging weight / volume, increasing recycled content and eliminating the use of plastics
- **Substances –** eliminating harmful substances
- **Weight & materials –** reducing product weight and selecting sustainable materials
- **Circularity –** recycling products, components and materials at the highest utility and value
- **Access to light –** providing light in off-grid and underserved areas
- **Basic needs –** lighting that increases productivity of food by ≥10% vs benchmark
- **Human centric lighting –** providing light which increases well-being and performance

We're committed to using innovations to lead the way in revolutionizing the lighting industry. In 2019, we invested EUR 225 million in sustainable innovation which represents 83.5% of Signify R&D expenses (82.2% in 2018). Increasing investments in digital lighting solutions, cloud computing and circular economy designs have led to further improvements in the areas of energy and circularity. At the same time, sustainable innovation also addresses social needs such as Access to light, Basic needs and Human Centric Lighting. We believe that sustainable innovation will help create a more future-proof and purposeful portfolio of products, systems and services.

Sustainable innovation in millions of EUR



16.3 Brighter Lives

16.3.1 Human capital development

Mark van Bijsterveld,
Chief HR Officer Signify

"To continue our transformation into the new age of connected lighting, we need the industry's very best people. That's why at Signify we focus on developing all our employees and selectively attracting new talent. Creating a workplace where people belong, have impact and take pride in the company is at the heart of our people strategy. We celebrate our successes, learn from our failures, and work in a style of radical collaboration to continuously improve. Our diversity policy and inclusive environment facilitates continuous performance and learning. I'm proud to be part of this remarkable team realizing the industry transformation and excited to give my best each day to work side-by-side with the people here to unlock the extraordinary potential of light for brighter lives and a better world."

At Signify, we are creating a workplace where people belong, have impact and take pride in the lighting company we are transforming together. It's a vibrant workplace where people are passionate about taking light beyond illumination to create brighter lives and a better world. With our company purpose and values, we provide our people with a common direction about why we exist, what we value, and how we work.

We determined our values by engaging people globally from across our organization. At Signify, we put the Customer First. We will always be Greater Together by collaborating across teams to build on our strengths and diversity, and work towards our shared goal. We are a Game Changer, innovating to set ourselves apart and continue to lead in the industry. We have Passion for Results by working smarter and faster to deliver with excellence.

Employment

The total number of Signify employees was 32,005 at the end of 2019, compared to 29,237 at year-end 2018. Approximatively 60% of our employees were employed by one of our four Business Groups, focusing on manufacturing and research & development. 27% were employed in one of our markets, focusing on sales & marketing. The remaining 13% worked in corporate functions. Compared to 2018, the number of employees increased by 9% due to new acquisitions during the year. In line with the industry transformation from conventional technologies to LED technologies, connected Lighting systems and services, we expect that the nature of the current workforce will continue to change.

Employees in FTEs

	2017	2018	2019
Signify total	32,130	29,237	32,005

In 2019, the total employee turnover amounted to 41%, of which the vast majority was factory staff.

Employee turnover breakdown in 2019 in %

	Staff (majority in factory)	Professional	Management	Executives
	84%	14.4%	1.5%	0.1%
of which voluntary	50%	55%	52%	42%
of which involuntary	50%	45%	48%	58%

Talent Management

With more than 32,005 talented and engaged employees all over the world, it is our people who execute our strategy to delight our customers. 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 do this by offering employee attractive and relevant learning and career development opportunities and by strengthening the leadership pipeline across the organization.

Our approach to talent is to build and develop employees' functional and leadership skills continuously, while attracting new talent where critical capabilities are needed to strengthen our diverse talent pool to achieve our strategic objectives. In 2019, we welcomed 1,246 external talents to help bring our business vision to life.

In line with our talent philosophy to promote talent from within the organization, 81% of our senior leadership roles were filled with talent from within. Overall, 35% of all our vacancies were filled with internal candidates, which is in line with the ambition we set.

A strong global employer brand with local relevance in the digital age

Since the launch of our new name Signify, we are strengthening our global employer brand through our Employee Value Proposition. We continue to focus our strategic recruitment marketing investments on the most critical talent segments, to drive our transformation and growth. For example, a special focus is given to the target groups marketing, sales, technology, supply chain, students and alumni with relevant messaging. Additionally, Signify's career website, launched in 2018, is attracting a growing number of candidates (increase of 50% compared to 2018).

As part of our global talent acquisition strategy, we continue to attract talent from proven high-quality sources. In 2019, the main sources of hire were:

- **Internal –** Over the last few years we have filled approximately 30% of our vacancies internally (2019: 35%).
- **Employee referral –** Historical data has shown that our top-performing hires are those referred by our own employees. Therefore, we encourage them to share their network through a formal employee referral program, which generated 15% of our total hires in 2019.
- **Proactively sourced by recruiter –** Our dedicated in-house sourcing function focuses on proactively building talent pipelines and identifying passive talent.
- **Signify careers website –** Our career website attracts talent by emphasizing our Employer Value Proposition through targeted information sharing and storytelling from our employees and leadership teams.

The Signify global career website can be found at www.careers.signify.com.

Employee engagement

Employee engagement is key to our competitive performance and is integral to our vision, creating a workplace where people belong, have impact and take pride in the company we build together. Engaged employees are emotionally committed to our company. They help us meet our business goals and sustainability commitments, and contribute to a dynamic, high-performance workplace. In 2019, to foster employee engagement on sustainability, we launched quarterly campaigns around the themes of sustainable commuting and carbon neutrality. We can only offer an environment in which all our people thrive by maintaining regular dialogue with our employees in order to understand their needs. Our employees and managers take the time for this dialogue, directly shaping the work environment and our inclusive culture. As a result, high engagement levels not only help Signify to grow but help us to understand our employees' needs in depth and respond to these in turn.

Given that employee feedback and engagement is so critical, seven years ago we introduced a quarterly survey currently known as the Team survey, with the accompanying promotion of Team dialogues for people managers and their teams. This Team survey has questions in line with our company purpose and values. This proved to be a positive driver of employee engagement to increase team effectiveness, and, as a result, we will continue to run the Team survey on a quarterly basis to monitor engagement.

In 2019, we saw the following company results: 86% of our employees underlined that we truly put our Customer First; 87.3% of our employees acknowledged that we are Greater Together; 88% of our employees felt that we are considered a Game Changer and 79.3% of our employees agreed that we have Passion for Results.

We have noted that we need to continue to improve in effectiveness and recognition. Initiatives to address our improvement areas are driven at a team level via our Team dialogues, and in addition we continue to drive 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. 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 and are considered likely to exhibit value-creating behaviors. Those who respond with a score of 0 to 6 are labeled Detractors, and they are believed to be less likely to exhibit the value-creating behaviors. Responses of 7 and 8 are labeled Passives, and their behavior falls in the middle of Promoters and Detractors. The NPS is calculated by subtracting the percentage of employees who are Detractors from the percentage of employees who are Promoters. The NPS can be as low as −100 (everybody is a detractor) or as high as +100 (everybody is a promoter). A positive NPS (i.e. higher than zero) is felt to be good. In 2019, Team survey had an average employee response rate of 80% which is the highest since we began running the survey (2018: 78%). At the end of Q4 2019, we recorded an unprecedented NPS score of 20 across the Signify population, leading to a yearly average score of 18 (2018: 13), following the announcement of the acquisition of Cooper Lighting Solutions.

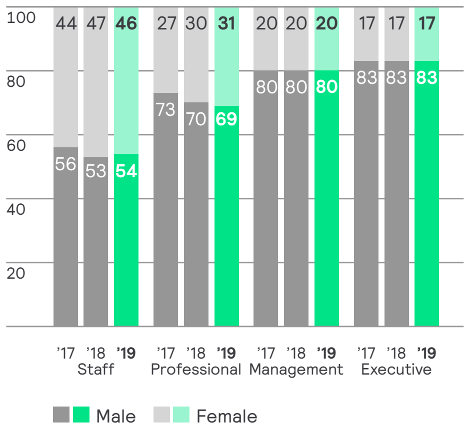
Diversity and Inclusion

At Signify, we believe in building a diverse and inclusive workplace. This means we celebrate and foster an environment in which all people's ideas, perspectives, experiences and styles are highly valued. It also means that all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to Signify's success. Signify is a global company, embracing a global mindset and actively promoting and building capability in this area. Diversity and Inclusion reinforces our Greater Together value by nurturing an inclusive culture centered around valuing diversity, listening to learn, and acting with care.

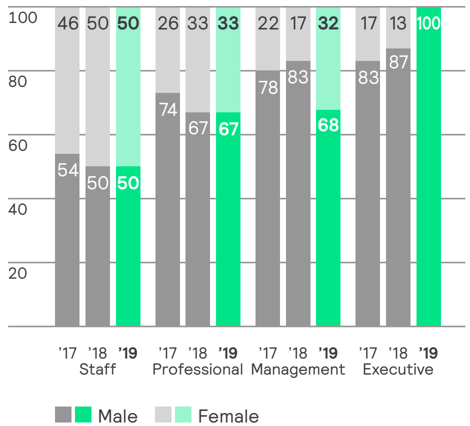
In 2017, we created a network of 20 Diversity and Inclusion champions in our organization consisting of a variety of employees across grades, gender, nationalities, and age representing the different markets, businesses and functions. In 2019, this network continued to promote our inclusive culture, by creating more awareness on local initiatives and sharing best practices around the world. In addition to the champions' network, in 2019 we created a Diversity and Inclusion Board to discuss current policies and initiatives and implement new initiatives and review the progress.

We continue to foster an inclusive culture and feeling of belonging, where people take pride in the company we are building together. Globally, we recognize the need for better balance in diversity in two specific areas: generational diversity and gender diversity. We continually monitor our gender and generational diversity numbers and strive to have a healthy balance in our organization. For the past three years, we have maintained a healthy generational

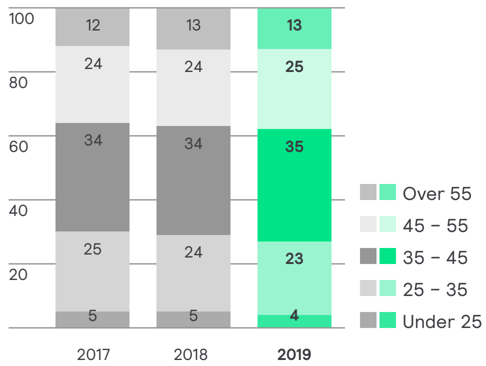
Gender diversity in %



New hire diversity in %



Employee per age category in %



diversity. In 2019, 38.2% of Signify employees were women and 17% of executive roles across the company were held by women. In 2019, we set the ambition to have 25% women in leadership roles by 2022 and 30% by 2025 (scope of leadership roles comprises executive and part of management roles).

Our internal and external hiring process, as well as our succession planning process, foster a rigorous focus on the broader sense of diversity (background, ethnicity, race, gender, age, education, religion). We aim to build a diverse workforce and an inclusive work environment to continuously improve our capabilities for the future success of Signify. We foster this culture by actively promoting our open internal job market, where all vacancies are posted, and all our employees can apply. In 2019, 48% of our new hires were women, an increase of 2% compared to 2018.

Equal remuneration

Signify has a pay policy with market-conforming compensation levels in all countries in which Signify operates. Our Integrity code explicitly condemn all forms of discrimination based on race, color, age, gender, gender identity or expression, sexual orientation, language, religion, political or other opinions, disability, national or social origin or birth. The principle of equal pay for work of equal value is applied in all countries in which Signify operates.

Leadership and Development

At Signify, we consider continuous learning and development to be a key differentiator in enriching the lives and careers of our employees, enabling growth, engagement and fulfilment. We offer new approaches to learning and apply them daily. A clear demonstration of our learning culture was the introduction of our new social learning platform Learning@Signify. This global learning platform enables employees to learn in their own way, co-create and share their expertise.

Our learning mindset is also connected to the development process, linking development area's during performance cycles to ongoing learning opportunities. The Signify Learning Centre of Expertise (LCoE) offers all forms of learning opportunities, enabling learning on the job through challenging assignments on the job (experience), providing coaching and mentoring through developmental relationships (exchange), and offering formally structured learning methods such as classroom teaching and online courses (education).

Leadership development

As continuous learning is our key differentiator, we ensure our leadership development experiences are aligned to this ethos and to our Talent Management Strategy. Our EDGE leadership development programs ensure our first time (EDGE I), mid-level (EDGE II) and enterprise leaders (EDGE III) are given the capabilities and mind-set to lead in the Signify way. They are aimed at developing our existing leaders who already hold responsible positions, as well as building a pipeline of future-ready leaders who can further take the company to paths of excellence and sustainable profitable growth.

As per our development methodology, leadership development is also viewed through the lens of embodying the blended learning philosophy, rather than by one-off programs. The latest partnerships we have built with Harvard Business School and Ashridge HULT disseminate world-class leadership development journeys and are a great example of ensuring continuous learning discipline in the minds of our top leaders across all levels.

The unique and ground-breaking experiences of our leadership development provides our leaders with a learning journey which includes 1 on 1 coaching, self-directed virtual learning, group activities focused on agile working and design thinking, all linked with pre and post calls and a face to face program in the middle. In 2019, we completed 8 Edge leadership programs: 5 EDGE I classes, 2 EDGE II classes and 1 EDGE IIII class. Each class has around 30 participants.

As we move into 2020, we will continue to improve the leadership development experiences with our leaders using co-creation and will continue to ensure that our leaders are able to drive our continued transformation and digitalization, and are equipped to give our people the best employee experience possible.

Let's Get Systemized!

In 2019, as part of our strategic growth initiative to upskill the commercial functions in our markets, we launched a new learning program: Let's Get Systemized. The aim of this program is to equip our sales talents to increase the opportunity win-rates in a highly competitive business context. Over 50 subject matter experts joined the movement by creating agile learning content in their respective fields of expertise, such as Interact, Dynalite and Color Kinetics, making use of the full potential of the Learning@Signify platform.

The design is based on three pillars to reflect our blended learning vision - allowing people to not only discover the latest content on the value propositions via reading or watching videos, but also stimulating people to take part in the dialogue and virtually meet each other on a regular basis to discuss challenges and learn from peers. Markets embraced this opportunity to learn and connect with experts and peers and were encouraged to get the needed "license to sell" within their sub-segment.

With close to 5,000 active learners and over 1,000 people actively engaging with each other in our "System Talks", Signify employees are taking ownership of their learning. This also enables them to bring our value propositions to customers more seamlessly and effectively. The program proves we have a wealth of knowledge inside our company and strengthens our muscle to increase our market share in the System and Services Business.

Trainings and courses

To ensure our workforce is well equipped to perform and meet business requirements, each functional area has identified “fit for future” competency on which the respective area will focus. Through the award-winning Harvard Manage Mentor leadership suite, employees also have access to 40 individual online modules on personal development, business and management skills.

More than 17,500 learning modules and periodicals were offered through the LCoE in 2019, collaborating with the best content providers like Harvard Manage Mentor, Pluralsight, Coursera, Ashridge Executive Education and MindGym. Our learning offering is structured in learning journeys and paths to help our employees build excellence in any chosen topic. These world class e-learning offerings complement the curriculum of critical programs in our blended learning methodology. In 2019, more than 384,000 e-learnings were booked centrally compared to 210,000 in 2018 and 156,000 in 2017. The amount of time registered as spent on learning modules was over 135,610 hours in 2019. Thanks to our new learning approach with Learning@Signify, we are improving on our vision to build a culture of learning in the company. At the end of 2019, 94% of the targeted employee population were on the Learning@Signify platform and 49% have begun to consume, share and promote learning actively.

We support our learning by always acting with integrity, whereby all employees are required to complete mandatory learnings related to privacy law, security and regulations in line with our Integrity code. Based on our value creation methodology, Signify has created EUR 4.89 million in value for our society through its employees’ learning and development programs.

16.3.2 Human rights

Our approach

Acting with integrity is at the heart of Signify’s culture and is an integral part of our company’s purpose. Respecting human rights is a central foundation of the way we work. Our commitment to respecting and promoting human rights extends beyond our own operations, across our wider sphere of influence, including our supply chain. To that end, we integrate human rights considerations into our policies, processes, and practices.

Our Human Rights policy is based on the International Bill of Human Rights, the United Nations Global Compact Ten Principles, and the International Labour Organization’s declaration on Fundamental Principles and Rights at work. Signify carries out continuous research and stakeholder engagement activities to identify the most salient ethical and social principles that govern our relationship with stakeholders worldwide.

The table below shows, in random order, the salient issues identified and the stakeholders they affect, as well as references to the sub-sections that contain the progress that Signify made in addressing these issues.

Salient human rights issues

	Salient human rights issues	Rights holders covered in our programs			Reference to our disclosures
		(3rd party) employees	Direct suppliers	Indirect suppliers	
1	Freedom of association and collective bargaining	•	•		16.3.4: Acting with integrity 16.3.2: Social responsibility in our supply chain
2	Safe & healthy workplace	•	•		16.3.3: Safety at work 16.3.2: Social responsibility in our supply chain
3	Working hours	•	•		16.3.4: Acting with integrity 16.3.2: Social responsibility in our supply chain
4	Equal employment opportunities and respect	•	•		16.3.1: Diversity and Inclusion 16.3.4: Acting with integrity
5	Recognition and reward	•	•		16.3.2: Human Rights 16.3.4: Acting with integrity 16.3.2: Social responsibility in our supply chain
6	Forced and child labor		•	•	16.3.2: Social responsibility in our supply chain
7	Employee development	•			16.3.1: Leadership and Development 16.3.4: Acting with integrity

Human rights risk assessment

Compliance to the Human Rights policy is governed through our Integrity code processes, combined with dedicated steps that help ensure adherence.

In 2019, employees were requested to complete e-learnings or to participate in face-to-face trainings 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 embed 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. No systemic violations were identified at any of the sites.

Living wages

At Signify, our people make the difference in our performance and they are our face to customers, suppliers and partners.
By ensuring good working conditions, Signify not only aims to provide a fair, safe, and respectful environment, but also an inspiring place to work and grow.
Fair remuneration is considered a pre-condition for our employees to flourish. It is our company policy to offer remuneration that meets or exceeds the provisions of all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits.

Every two years, Signify performs an analysis of salaries and benefits for employees globally with respect to living wage, covering the costs of food, housing and transportation, with a 10% margin for other expenses, based on WageIndicator. In 2019, Signify performed an analysis that showed that company standards exceed the living wage standards in all countries examined (such as the Netherlands, China or India).

We ensure employees of our suppliers in risk countries receive fair compensation in terms of wages, overtime and benefits. Through our intervention, 98% of our risk suppliers met our requirements. In 2019, we continued to advocate for increased attention and collaboration on social responsibility in global supply chains and we will continue our efforts regarding Living Wages in our supply chain in 2020.

Social responsibility in our supply chain

Signify has developed programs over the years to prevent Human Rights violations in its supply chain. We have a direct business relationship with approximately 3,300 product and component suppliers.
Responsible procurement practices and management of our supply chain require a structured and innovative approach due to the wide variety of stakeholders.
Our programs cover the assessment and development of supplier sustainability performance (audits and training) and responsible minerals sourcing.

Supplier sustainability performance

The core of our supplier sustainability performance program is the Supplier Sustainability Declaration (SSD).
This declaration forms an integral part of our supplier contracts and can be found on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/supplier-sustainability-management.

The SSD is derived from the Responsible Business Alliance (RBA) Code of Conduct and sets out the standards and behaviors we require from our suppliers and their suppliers. It covers labor, health & safety, environment, ethics and management systems. We monitor supplier compliance with the SSD through a system of regular audits. In the RBA Code of Conduct and in our SSD, special attention is given to the prevention of human slavery as referred to in the United Kingdom (UK) Modern Slavery Act Disclosures and the California Transparency in Supply Chains Act.
The formal statement on these legislations can be found on our website (see link above).

For selected suppliers in risk countries, full audits are performed in a three-year cycle by an independent audit firm. If non-conformances are identified, we require the supplier to develop and execute a corrective action plan.
We support our suppliers to correct the non-conformances, for instance by providing training or sharing best practices.
We monitor the execution of the corrective action plans until the supplier is compliant with our requirements. In case of delays, the supplier is classified as non-compliant in our Tritium program and we apply a stratified approach for consequence management.
We work with each supplier to resolve non-conformities within ninety days, where possible.

Summary of 2019 audit program (three-year cycle, third-party audit)

	Greater China	Rest of the World	Americas	Europe	Total
Total no. of risk suppliers	**176**	**31**	**16**	**4**	**227**
Total no. of audits	49	18	6	0	73
Initial audits	3	4	0	0	7
Continued conformance audits	46	14	6	0	66
Workers employed at sites audited	30,866	19,779	1,987	0	52,632

In 2019, we audited 73 of our current risk suppliers, including 66 continued conformance audits with suppliers that were previously in the three-year cycle. In 2019, the majority of the audits were done in China. Through these audits, we have reached 52,632 workers employed at supplier production sites. In 2019, the average audit score of our risk suppliers was 66 (2018: 63). Risk suppliers new to the audit program scored 58 (2018: 57). Dedicated follow-up actions to close the non-conformances were carried out for the lower scoring suppliers. After implementing the corrective action plans, the average overall audit score in 2019 was 87 out of 100.

The supplier sustainability performance rate represents the percentage of risk suppliers that have an audit score of at least 90 out of 100 points. Our 2019 target on supplier sustainability performance is 90%. In 2019, we achieved a supplier sustainability performance rate of 99% (2018: 93%).

The table below shows the supplier sustainability performance and indicates the conformance level in the audits before suppliers have taken corrective actions. Three suppliers showed outstanding performance during the third-party audit, without any non-conformities found. The performance in the categories Wages and benefits, Industrial hygiene, and Hazardous substances have increased from 40-60% to 60-80% compared to 2018.

Summary of 2019 audit findings before suppliers have taken corrective actions, supplier compliance rate per category of SSD including top-10 non-conformities coverage of the Supplier Sustainability Declaration

Labor	Health & Safety	Environment	Ethics	General
Freely chosen employment 60-80%	**Occupational safety 40-60%**	Environmental permits and reporting 60-80%	Business integrity 80-100%	RBA code 80-100%
Child labor prohibition/ Young worker management 80-100%	**Emergency preparedness 20-40%**	Pollution prevention and resource reduction 80-100%	No improper advantage 80-100%	
Working hours 40-60%	Occupational injury and illness 60-80%	Hazardous substances 60-80%	Disclosure of information 80-100%	
Wages and benefits 60-80%	Industrial hygiene 60-80%	Solid waste 80-100%	Protection of intellectual property 80-100%	
Human treatment 80-100%	Physically demanding work 80-100%	Air emissions 80-100%	Fair business, advertising and competition 80-100%	
Non-discrimination 80-100%	Machine safeguarding 80-100%	Product content restrictions 80-100%	Protection of identity 80-100%	
Freedom of association 80-100%	Food sanitation and housing 60-80%	Water management 80-100%	Responsible sourcing of minerals 80-100%	
	Health and Safety information communication 80-100%	Energy consumption and Greenhouse gas emission 60-80%	Privacy 80-100%	
			Non-retaliation 80-100%	

In addition to the audits with current risk suppliers, we audited 21 potential suppliers as part of the supplier qualification process. For potential suppliers to continue the qualification process, they should not have any zero-tolerance issues and score a minimum of 70 points. Additionally, non-conformities need to be closed before completing the qualification process.

Since 2016, we have performed an annual verification for the highest risk suppliers. Depending on the risk category this can either be an on-site audit or a self-assessment questionnaire. In 2019, we performed 5 onsite annual verifications audits and validated 42 self-assessment questionnaires remotely (2018: 7 onsite annual verification and 42 self-assessment questionnaires). The average initial score in these annual verification audits was 58 and average score of self-assessment was 94.

Supplier training and developments

Since 2017, we have included hours of on-site trainings at suppliers. These trainings are tailored towards the non-conformances that were found during the audit. By doing so, we train supplier staff on the topics that are most important for them to improve on. In 2019, we performed on-site trainings at 56 supplier sites, which were attended in total by 400 supplier employees.

Reducing water and air pollution levels in China

To reduce the environmental pollution in China, Signify worked with the Chinese Institute of Public & Environmental Affairs (IPE), leveraging their work to engage with our suppliers. For instance, to help suppliers have better understanding of environmental issues, we organized two IPE training sessions in July and December 2019 as a part of our overall RBA training program.
Periodically, IPE publishes a list of Chinese factories associated with concerning environmental pollution levels. Signify engages with any suppliers on the IPE list to resolve environmental non-conformances. From 2015 to the end of 2019, there were 44 direct suppliers flagged on IPE's list, which was reduced to 5 by this year-end and 39 suppliers have taken actions to remediate and their violation records were removed from IPE website. Signify also requested direct suppliers to engage their own direct suppliers that appear on IPE's list for them to resolve non-conformances.

We also provide training sessions on the RBA Code of Conduct and SSD. To address critical and emerging issues, we also provide in-depth capability building programs for our suppliers on specific topics. In 2019, we focused these extra trainings on carbon emissions and reduction, related to the CDP Supply Chain program and health and safety in worker-led programs.

In 2019, we organized 9 training sessions which were attended by 91 suppliers, with a total of 503 attendees.

Responsible mineral sourcing

Our commitment to sustainable development extends to issues further down in supply chain, to prevent human rights abuses and financing of conflicts in the extractives sector. Global supply chains in the lighting industry are long and complex, typically with more than seven tiers between the finished product and the source of raw materials used for manufacturing. However, we believe that through strong multi-stakeholder partnerships we can make a difference.

As part of the Signify Conflict Minerals program, we implement measures in our supply chain to ensure that our products are not directly or indirectly funding atrocities in the Democratic Republic of Congo (DRC). We support and follow the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The full description of our due diligence process and Signify's position on Conflict Minerals are available on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/conflict-minerals.

We are an active member of the Responsible Mineral Initiative (RMI) which runs the audit program to verify the smelters' conflict-free status. We use the tools and programs developed by the RMI, especially the Conflict Minerals Reporting Template (CMRT) and the Conflict-Free Smelter Program (CFSP). Each year, we invite our main suppliers, based on purchasing spend and metal usage, to fill in the latest version of CMRT.
We carefully review the information received via the CMRT from each supplier against our requirements. After having identified the smelters in our supply chain, we publish our Signify Conflict Minerals Declaration, including our smelter list on the company website (see link above). Each year, we update the Signify smelter list with new information received from our suppliers.

In 2019 we invited 164 priority suppliers to fill in the CMRT, among which 35% were new suppliers. This number of suppliers represents 82% of our total spend.
We approved 92% of the CMRTs against the Signify requirements. We had a total of 263 smelters in our supply chain.

The results of the Reasonable Country of Origin Inquiry (RCOI) can be found in the table below. The information for the RCOI is provided by RMI.

Results of the RCOI (Reasonable Country of Origin Inquiry)

	Gold	Tantalum	Tin	Tungsten	Total
Smelters known to source from the DRC and/or adjoining countries	2	24	7	10	43
Smelters known to process only recycled or scrap materials	16	2	5	3	26
Smelters known to source from outside the DRC or adjoining countries	17	13	66	31	127
Smelters that disclosed mineral country of origin to auditors only	64	0	0	0	64
Smelters with unknown minerals origin	6	0	0	0	6

We are also 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.

To ensure Signify does not indirectly contribute to human rights abuses in cobalt, lithium and mica mining, we have carried out an investigation to understand which of our suppliers were using these minerals.
It resulted in the identification of 8 direct suppliers that provide components or parts which contain mica, 3 suppliers for cobalt and 4 for lithium.

Cobalt is present in our battery supply chain for emergency lighting and remote controls, making up less than 0.2% of our bill of material spend. Despite this, we have prioritized this topic and engaged on responsible sourcing standards. Since 2018, we have been part of the Partnership agreement for Responsible Cobalt Mining together with Fairphone, Huayou and Impact Facility. This partnership aims to improve health and safety, fairer income and community impacts in artisanal small-scale mines (ASM) and contribute to the development of a transparent battery supply chain. In 2019, we developed a strategic plan with our partners, which will be executed in 2020.

16.3.3 Safety at work

Health & Safety performance

Since our founding, we have prioritized the health and wellbeing of people involved with our activities, committing ourselves to provide a safe and healthy workplace for all. The Total Recordable Case (TRC) rate is the central lagging indicator through which we measure our overall safety performance. Targets for this indicator are set and managed at an overall company level, for the individual Business Groups and manufacturing sites. A target of 0.35 for 2020 for the overall company has been set in our Brighter Lives, Better World sustainability program. We drive continuous improvement cycles, followed up with daily management reviews and regular operational reviews.

We are further strengthening our safety mindset through our injury prevention program. We focused on equipment safety, warehousing safety, on-site contractors' safety and managing progress for leading indicators related to near-misses, unsafe conditions and at-risk behaviors.

Activities in 2019 included office safety standard deployment with the objective to increase and standardize safety maturity at our office sites.

We regret to report one employee fatality in 2019, which involved a stand-up clamp truck occurred at one of our sites.

We recorded 82 TRC cases in 2019 (81 TRC cases in 2018). The TRC rate increased to 0.32 per 100 FTEs, compared to 0.29 in 2018. This is a 56% improvement from our 2015 baseline and meets our 2020 target on safety.

Eighteen of our industrial units went through 2019 without any recordable injuries. There are 5 industrial sites that have had no recordable injuries over the last 4 years - Varginha, Xiamen, Pila Home, Pabianice Lamps branch, Assembly Workshop Copenhagen, while 63 sites had achieved more than 500 days injury-free at year-end.

Recordable cases

	2017	2018	2019
Total recordable case rate	0.41	0.29	0.32
Lost workday cases rate	0.27	0.18	0.19
Fatalities	1	1	1

Our injury prevention framework was launched in 2015 and has continued its integration into the operational Lean framework. All our industrial sites have now adopted the key elements of this framework. Efforts continued to further reduce injury and illness rates by focusing on daily standards to prevent injuries. We increased our injury prevention requirements in the new release of Signify's Lean program.

Management system

We have implemented a Health & Safety management system in accordance with the OHSAS-18001 standard at all manufacturing sites. In 2019, 64% of our reporting manufacturing sites were certified to OHSAS-18001. The remaining manufacturing sites have procedures in place which assure compliance with local regulations and Signify policies.

Health and wellbeing initiatives

Apart from our commitment to provide an injury-free workplace, we support our employees with their health and wellbeing. Through diverse initiatives managed by our country offices, our staff are enabled to proactively work on their vitality and personal health. Examples of initiatives which support active health management include:

- periodic health-checks
- discounts to health and sports centers
- free fresh fruit
- on-site availability of massage therapy and physiotherapy.

In addition, several of our office spaces are using lighting technologies which enable lumen outputs to follow the human circadian rhythm, enabling our employees to see, feel and function better. Several of our locations also provide the ability for each employee to adjust the individual light settings in the workspace with their smartphones, ensuring the brightness and tone of our office lighting aligns with their energy patterns and needs.

16.3.4 Acting with integrity

In 2019, Signify launched a revised code of conduct, the Integrity code (previously known as the General Business Principles). Our Integrity code:

- emphasizes our commitment to always acting with integrity, starting from its name;
- is a living document: it will be updated on a yearly basis to ensure continuous improvement. It is a starting point for greater awareness;
- is translated in 26 languages;
- incorporates commitment from the top leaders via the co-signed statement of our Leadership Team members;
- Reflects our new company name and branding guidelines as well as our purpose and values;
- clarifies the relation between the Integrity code itself and its underlying policies belonging to different domains;
- gives more information on how to speak up and where to find additional resources;
- is user centric: designed around the employee and everyday work/life situations they might encounter;
- helps us make the right decisions, from how we behave in the market to how we treat each other.

For a description of Integrity code processes and policies, please refer to section 12.1 Establishing strong risk management environment, of this Annual Report.

In 2019, 197 Integrity code concerns were captured via the Signify Ethics line. In addition to the Ethics line, employees are encouraged to address integrity related concerns with their managers or other assigned staff. Compared to 2018 (186 Integrety concerns), this is an increase of approximately 6%. This increase can be mainly attributed to more concerns having been filed related to treatment of employees, which represented 58% of the total number of registered complaints in 2019 compared to 48% in 2018.

Most commonly reported concerns

Treatment of employees

The subcategory equal, fair & respectful treatment makes up 78% of the concerns related to 'Treatment of employees' in 2019 (73% in 2018). This category, for instance, relates to concerns about verbal abuse, (sexual) harassment, favoritism and matters of discrimination in the workplace.
The increase can be attributed in part to an increased reporting rate in the Growth Markets region and the fact that for a number of matters multiple reporters have filed a concern.

In 2019, we combined the category of Right to organize & Collective bargaining as well as Other & HR commitments towards employees.

Business integrity

The second most reported type of concern relates to Business integrity. The number of complaints reported in this segment represents 34% of the total cases reported, compared to 37% in 2018.

Breakdown of alleged violations Integrity code

	2017	2018	2019
Health & Safety	2	4	-
Treatment of employees	106	90	114
• Equal, fair and respectful treatment	77	66	89
• Employee development	-	1	1
• Employee privacy	1	-	-
• Employee relations	10	8	1
• Remuneration	5	1	2
• Right to organize/Collective bargaining	-	-	1
• Working hours	4	3	1
• HR other	9	11	19
Legal	6	3	4
Business integrity	73	69	66
Supply management	1	n.a.	n.a.
Security, including IT	-	11	9
Other	10	9	4
Total	**198**	**186**	**197**

Substantiated/unsubstantiated concerns

Of the 197 cases reported in 2019, 51 were open as of December 31, 2019. Of the 146 reports investigated, 66 were ultimately closed having been found to be substantiated, which represents 45% of the closed cases.

Product quality

Signify has a strong commitment to responsible product stewardship.
The Signify quality management system is ISO 9001:2015 certified, covering all business activities. When it comes to quality, we believe prevention of defects is better than cure. This is reflected in our structured approach towards the selection and qualification of suppliers, manufacturing, installation and service of our products and services. In those rare cases where defects are found in our products that have been brought to market, Signify takes a proactive approach and appropriate actions, which may include a product recall, especially if health and safety are of concern. Signify has a robust process in place to ensure impacted constituents are informed. In 2019, no product safety issues were found that resulted in a fine or penalty.

16.3.5 Social impact of light

We are driving change to create brighter futures. Through our technology, social and business life no longer stops when the sun goes down. Light enables recreation, productivity and economic growth.

Human-Centric Lighting

Scientific evidence shows that light has a powerful impact on our emotions and important physiological and biological processes in our body. The powerful effects of light on our physiology, mood and behavior are not only mediated by rods and cones, but also by a novel, melanopsin-containing photoreceptor within the eye. These insights help us develop commercial lighting solutions that are targeted at enhancing vision, well-being, and performance. By applying an in-depth knowledge of science, customers and user needs, we bring light beyond illumination.

In 2019, we continued to establish a new global standard for the essential building blocks of Human Centric Lighting and to innovate in Human-Centric Lighting solutions - helping people to see, feel, and function better.

Food availability and quality

The challenges we face will require more efficient food production to support an additional two billion people by 2050.
New and smarter agricultural methods other than rural farming will be required to deliver food - at scale - to meet this demand.

Signify continues the development of agricultural lighting to help growers and farmers globally to produce sustainable and healthy food, increasing yields and quality and improving animal well-being.
Our technology applies to horticulture, aquaculture, animal centric lighting and water and air purification.

Aquaculture LED lighting

Mowi ASA is committed to excellence, ensuring the demand for farm-raised Atlantic salmon is met while achieving the highest standards of sustainability. Mowi chose Signify's new 680W AquaLED luminaire to achieve its goals for being the most robust solution and providing the best results.
With our lighting system, a 15% energy saving was realized, as well as an approximately 50% reduction in sea lice treatments and 5-7% waste reduction.

Access to light

Deep disparities in energy access continue to deprive 850 million people living off-grid in the global south of development opportunities. At the same time, urgent action is needed to limit the hazardous levels of carbon emissions of mature economies. With these two spectrums, ending this energy access imbalance will have to be driven by renewable sources of energy.

Signify has a target of reaching 5 million lives with renewably powered lighting and supporting 10,000 people with technical and business skills development in 2020 (baseline 2017).

Signify channels its community investment activities via a dedicated Corporate Social Responsibility program and the Signify Foundation with the mission to enable sustainable access to light to communities underserved by the grid. As a result, a large percentage of Signify Foundation partners and projects are in Sub Saharan Africa, where more than half of the population do not have access to electricity.

When pursuing this mission, the Foundation works with actors who are addressing barriers across all the aspects of the energy and light access value chain.
From technology manufacturers, logistics and distribution agencies, financing partners and training institutions, they are all key to enabling a robust self-sustaining energy ecosystem. This approach deviates from traditional philanthropy to interventions that stimulate systemic change through the development of clean technology market ecosystems. Signify Foundation dedicates the use of its resources to addressing barriers to growth and sustainability of a robust market where local lighting needs are met by local suppliers. Thus, contributing to sustainable and affordable lighting, underpinned by the creation of gender-inclusive livelihood opportunities.

Leveraging on the 125-year history of Signify, Signify Foundation's projects promote the use of clean technology-based lighting systems that address the entire spectrum of lighting needs of a community. These include home lighting, institutional lighting, public lighting and lighting for emergency relief. Lighting homes and public spaces by promoting the use of solar lighting systems which are safer, cleaner and have no recurring fuel costs compared to traditional kerosene lamps. Partner and project selection follows the process of project application, due diligence and risk assessment and the projects considered for funding support are aligned with the Foundation's key focus areas:

- Lighting Lives
- Lighting Entrepreneurs
- Humanitarian Light

Through all the projects that were implemented within the scope of the CSR department and Signify Foundation in 2019, 1,373,219 lives were lit and 3,276 lighting entrepreneurs were supported.

Lighting Lives

We are enabling access to relevant, affordable and sustainable lighting technology for off-grid and partial grid communities to help extend the productive day. In 2019, Signify Foundation extended its East Africa footprint to Uganda, supporting Village Energy to accelerate its business sustainability by addressing barriers in their business structure, financial planning, procurement and personnel needs.
This would enable Village Energy to bring their solar lighting technology to SMEs, schools and households in rural Uganda. Signify Foundation was granted support for this program by the Austrian Development Agency to help extend the scope of the program. The objectives of this partnership are to install 150,000 light points and place 60 women in clean technology jobs.

Lighting Entrepreneurs

Better lighting stimulates productivity and entrepreneurship. However, Lighting Lives can only have a long-term impact if communities have the skills to operate and maintain the lighting installation provided. In addition to this technical training, Signify Foundation helps entrepreneurs develop or improve enterprise management skills to stimulate the creation of a robust distribution channel for green lighting technology. In 2019, Signify Foundation partnered with BRAC Nepal to train young women, many of whom were unable to complete their formal education, with electrician skills. Several of these young women went on to work on the rebuilding of homes that had been destroyed by an earthquake and are now earning livelihoods as assistant electricians in their communities. These young female electricians are not just challenging social and gender norms but have also become role models and a source of inspiration to other girls in their communities. "I am confident to troubleshoot any electrical problems in my community", says Ramita, one of the 70 girls trained to become lighting technicians in Nepal.

Humanitarian Lighting

During man-made or natural disasters, grid infrastructure is often impacted, leaving vulnerable communities without access to energy and lighting. The high impact earthquake (7.5 Richter scale) that hit Lombok in 2019 was followed by a tsunami and liquefaction impacting Palu and its surrounding area in Central Sulawesi, Indonesia. This led to 1,763 casualties and a total of 62,359 people being forced to evacuate to 147 evacuation shelters. People impacted by the destruction have an immediate need for light. Signify Foundation provided indoor and outdoor lighting to communities impacted by the earthquakes and flooding in Palu. The donation of lighting products including bulbs, streetlights and luminaires as well as solar lighting supported the rehabilitation and reconstruction.
Lea Kartika Indra, who leads the CSR efforts at Signify Indonesia said "Lighting is one of the key enablers for various activities that enable the survivors to continue their life as normal after this tragedy."

Light for better learning
In 2019, Signify country offices came together as part of a global campaign “Light for better learning”, to enhance the quality of lighting for schools that already have lighting and are served by the grid, or solar lighting systems for schools that are not on the grid. In its innovative program, solar lighting libraries, schools were equipped with solar lanterns that would be charged at the school by solar panels but would be accessible for the students to take home for the night. Evaluation reports captured that the lanterns were not just being used by the students for studying at home, but for a wider range of uses by their families, such as for household chores and looking after their livestock at night. The students would bring the lantern back to school to be recharged, thus increasing the drivers for attendance rates at the school.

In other countries like Ukraine and Russia, Light for better learning program activities comprised retrofitting of lighting for schools where Signify employees also delivered classes on energy efficiency and its potential as a climate change mitigator as part of their volunteering efforts. Signify promotes employee volunteering and employee giving through locally relevant initiatives across the geographies where we operate.

16.3.6 Working with stakeholders

In the further development of our Brighter Lives, Better World program and commitments to the relevant UN SDGs, Signify has again stepped up its work with strategic partners and stakeholders.

During 2019, and in the run up to COP26 in 2020 – where countries need to submit their final national climate plans to the UNFCCC – we were part of a number of initiatives aimed at increasing the focus on climate action. At the start of the year we shared our views at the World Economic Forum (WEF) in Davos, emphasizing that climate advocacy must be followed by action.
At Signify, we continue to drive implementation of our carbon neutral by the end of 2020 commitment and implemented our Science-Based Targets; our RE100, EV100 and Net Zero Carbon Buildings program. In Davos, we urged the International Gathering of World Economic Leaders (IGWEL) community to pursue similar approaches. Also, at the WEF we published the blog “How building renovation can drive the accelerated adoption of electric vehicles”, based on the RMI report published in the second half of the preceding year.

Another important event was the 4th UN Environmental Assembly that gathered mid-March 2019 in Nairobi. As members of the UN Science-Policy-Business Steering Committee, we were asked to share sustainable development recommendations – with a focus on tackling climate change – with the Environmental Ministerial delegations. At UNEA-4, we co-launched the “Global Alliance for Smart Cities in Africa” (GASCA) during the March 14 One Planet Summit for Africa hosted by French President Macron. In 2019, we continued our cooperation with the UN Environment’s program to establish robust a policy framework in developing and emerging countries to support their transition towards energy efficient lighting.

And 2019 was a year of intense advocacy activities – mainly through the European Alliance to Save Energy and the Corporate Leadership Group Europe – to motivate the European Commission and Council to adopt a commintment to being climate neutral by 2050 the latest. This was combined with our program during Climate Week NYC, where at the UN Climate Action Summit our CEO launched the “Three percent Club” on energy efficiency, a crucial initiative aimed at doubling the annual energy efficiency improvement rate to 3% per year, in order to stay as close as possible to the 1.5°C global warming threshold. As part of this launch our CEO called on all countries to commit to carbon neutrality by 2050 at the latest, and on companies to commit to this by 2030 at the latest.

Another important achievement in 2019 was the commitment of the European Investment Bank to end their investments in Fossil Fuel projects, and to act for climate change by making the “energy efficiency 1st” principle an investment priority.

In our program at COP25 in Madrid we reiterated the above calls. All in all, this progress creates a good foundation to work on the Green Deal that the incoming European Council will create early in 2020.

16.4 Better World

For decades, we focused on minimizing the environmental impact of our operations. At Signify, we manage our environmental responsibility by setting ambitious targets, developing and implementing detailed plans and reporting on our progress.
We continuously strive for excellence in environmental management. In 2019, we continued our efforts to align with the recommendations set out by the Financial Stability Board (FSB) and the industry-led Task Force on Climate-related Financial Disclosures (TCFD). We continued to lead the way towards the achievement of the Paris Agreement and made significant progress towards our science-based targets, as reported below under carbon footprint and energy.

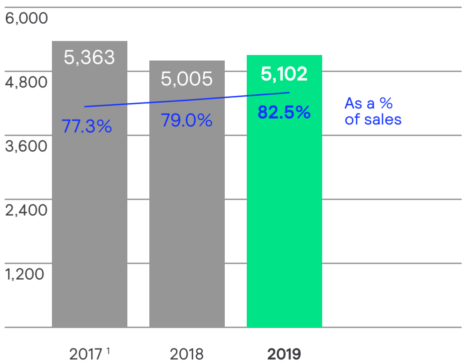
All our environmental policies and management framework are based on the international ISO-14001 standard. In 2019, 77% of our manufacturing sites were certified to ISO-14001.

16.4.1 Energy efficiency of our products, systems and services

Lighting makes up 13% of global electricity consumption and 5% of global greenhouse gas emissions. Phasing out energy inefficient conventional lighting and switching to energy-efficient LEDs and solar lighting can have significant environmental benefits. That is why energy efficiency is a vital aspect of our innovation process. We have set the ambitious target to have 80% of our revenues coming from sustainable products, systems and services in 2020.

Sustainable revenues are defined as products with an energy efficiency of 66 lm/W and higher as well as all systems and services, as these provide additional energy savings. Energy is selected as the key criterion, as this sustainable focal area consistently has the highest environmental impact, as shown through life-cycle assessments. In 2019, sustainable revenues grew to an all-time high of 82.5%.

Sustainable revenues in millions of EUR



Two billion LED lamps & luminaires

Through our digital LED technology, Signify offers light that is up to 80% more energy efficient, compared with conventional technologies, which are still commonly used. For this reason, we have pledged to deliver two billion LED lamps & luminaires in 2020 (baseline 2015). When combined with digitally connected systems, we can save energy equivalent to that generated by 58 medium-sized coal-fired power stations (equivalent to emissions from 21 million cars) in 2020.

In September 2019, Signify celebrated surpassing its five-year commitment to deliver two billion LED lamps and luminaires in support of the “Global Lighting Challenge” at the Climate Week NYC. At the end of 2019, Signify delivered 2,344 million LED lamps and luminaires. Considering the environmental impact of avoided carbon emissions, our LED lamps & luminaires delivered thus far have already saved 56,943 kilotonnes in CO_2, equal to EUR 5,784 million in societal costs saved.

The city of Seville is using solar lighting to enhance safety and energy efficiency

Seville is a city committed to fully switch to renewable electricity by 2030 to reduce energy costs and reduce its carbon footprint. Seville needed a lighting solution for more safety in their park.
By offering Philips SunStay streetlights to the city, Seville saved cabling costs, reduced its carbon footprint and lowered overall capital and operational expenditure. With an output of 3,000 lumens of warm light and an efficacy of 175 lm/W, Philips SunStay are more efficient than existing LED streetlights. The lighting of the park allows the practice of outdoor sports outside the existing facilities during the night, as well as maximizing the use of this green space of the city by neighbors and visitors.

[1] Our sustainable revenues definition is reviewed regularly and was made more ambitious in 2018. In 2017, all LED were considered sustainable and in 2018, the energy efficiency criterion was also applied to the LED part of our portfolio. 2017 results are consistent with those reported in previous annual reports.

LED lamps & luminaires delivered
in millions of units

	2017	2018	2019	Cumulative from 2015
LED lamps delivered	568	552	596	2,344

16.4.2 Carbon footprint and energy

At Signify, we have a long-term commitment to increase the energy efficiency of our products and reduce energy use in our production processes. We acknowledge the findings of the Intergovernmental Panel on Climate Change (IPCC) and believe we have an important role to play in the transformation towards a low-carbon economy. In our Brighter Lives, Better World sustainability program, reduction of CO_2 emissions and energy use are central to our 2020 sustainability commitments. We are committed to becoming 100% carbon neutral in our operations and sourcing only renewable electricity by the end of 2020. Through substantial efforts in various departments, we intend to continue our carbon reduction efforts to make our operational footprint carbon neutral. In addition, we contribute to reducing global electricity use and the carbon footprint through our energy-efficient products and we continue fostering carbon reduction activities in our supply chain.

Climate Leadership

In line with the Paris Agreement, we announced our 2°C scenario science-based targets for GHG emissions reduction in 2018. Signify commits to reduce 70% of absolute Scopes 1 and 2 GHG emissions and 30% of absolute Scope 3 GHG emissions by 2030 (baseline 2015).

At the end of 2019, we achieved:
- 50% reduction of absolute Scopes 1 and 2 GHG emissions (baseline 2015)
- 42% reduction of absolute Scope 3 GHG emissions from use of sold products (baseline 2015).

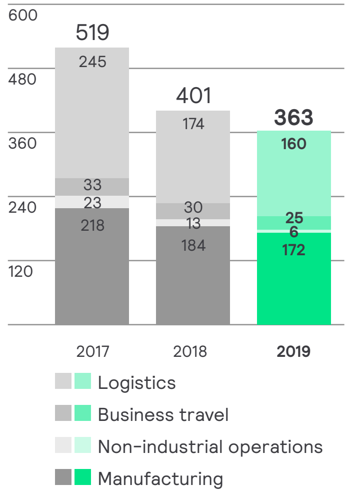
In 2019, we stepped up our support of a 1.5°C future as one of the first 28 companies committing to verified 1.5°C-aligned reduction targets covering greenhouse gas emissions from our operations.

We continue to partner with the Climate Group's EV100 Initiative to operate a lease fleet of hybrid and fully electric vehicles (EVs) by 2030. Through our partnership with the RE100 Initiative, we keep making progress towards our commitment of 100% renewable electricity use by the end of 2020. As an active member of Clean Cargo and the WBCSD Transforming Heavy Transport project, we engage cross-industry collaboration and strive to lower the carbon footprint of our freight transport. Our continuous pledge to the World Green Building Council's Net Zero Carbon Buildings commitment facilitates improvement in energy efficiency as well as reduction in electricity consumption in our non-industrial buildings.

Operational carbon footprint

Through substantial efforts in various departments, we continue our carbon reduction efforts to make our operational footprint carbon neutral. This consists of manufacturing, non-industrial operations, logistics, and business travel.

Operational carbon footprint in kilotonnes



In 2019, our total CO_2 emissions were 363 kilotonnes, a 9.5% decrease year-on-year. This was mainly due to a reduction in emissions from logistics and manufacturing activities. Our operational CO_2 efficiency in tonnes of CO_2-equivalent per million-euro sales was 58 in 2019, a 9% decline compared to 2018.

Carbon neutral operations in 15 markets

Signify has been actively working on solutions that reduce our carbon footprint in all our markets. We implemented a combination of measures including a wide range of energy-efficiency activities, sourcing renewable electricity, and offsetting the remaining carbon emissions. In 2019, 6 more markets, namely Latam, Asean, Far East, Indian Subcontinent, Indonesia and Pacific became carbon neutral.

To fulfil our carbon neutral commitment, we continue to partner with South Pole for strategic carbon offsetting projects. Among others, we initiated off-grid renewable energy generation with solar panels in India. We continued to support forest conservation in Colombia and Zimbabwe and kept our engagement in increasing the availability of renewable electricity through wind farms in India. Our partnership with South Pole enabled us to offset 82% of our emissions, resulting in a net carbon footprint of 64 kilotonnes which is 56% lower than our net CO_2 footprint in 2018.

Manufacturing

Manufacturing accounted for 48% of our operational carbon footprint, which has been reduced by 6% compared to 2018. This was achieved mainly due to continuous operational changes and efficiency improvements, for instance optimization of heating systems.

Non-industrial operations

CO_2 emissions from non-industrial operations (offices, warehouses) represent 2% of our total carbon footprint. In 2019, our emissions from non-industrial operations decreased by 57% year-on-year, primarily through increased renewable electricity usage and energy efficiency improvements.

Logistics

Overall, 44% of our total CO_2 emissions was attributed to logistics, which decreased by 8% in 2019. We focused on implementing strict approval procedures and actively promoting sustainable alternatives. Driven by our commitment to sustainable logistics, we remained engaged in the Clean Cargo buyer-supplier forum. This enabled us to successfully reduce emissions from road freight and ocean freight by 22% and 9%, respectively. Our air transport emissions went up by 2% due to an adjustment of reporting methodology to improve our reporting accuracy and transparency.

Business travel

Our CO_2 emissions related to business travel account for 7% of our operational carbon footprint. We achieved a 17% reduction compared to 2018. We continued to implement our sustainable travel policy in 2019. As a result, we lowered emissions from air travel by 23% and emissions from 20 kilotonnes to 16 kilotonnes.

Operational carbon footprint in kilotonnes CO_2-equivalent

	2017	2018	2019
Scope 1	185	172	168
Scope 2 (market based)	56	25	10
Scope 3 business travel	33	30	25
Scope 3 logistics	245	174	160
Of which			
• Air transport	143	71	73
• Road transport	49	51	40
• Ocean transport	53	52	47
Total Signify	**519**	**401**	**363**
Scope 2 (location based)	**242**	**202**	**181**

Energy use in operations

Our total energy usage in 2019 amounted to 3,885 terajoules, 4% lower than the previous year. This decrease was due to operational changes, reduced heating requirements and energy efficiency improvements in our factories. Our operational energy efficiency in terajoules per million-euro sales increased by 3% from 2018 to 2019.

Electricity

In 2019, we procured 94% of our electricity from renewable sources. All electricity consumed by our operations in the United States, Canada, Europe, Middle East, China, India and Indonesia was sourced from renewable sources or matched with Energy Attribute Certificates (EACs). Approximately 38% of our renewable electricity was contracted via our energy providers.
The remaining 62% was sourced through the procurement of renewable energy certificates, of which 34% came from our participation in power purchase agreements.

In 2019, we signed a 10-year virtual power purchase agreement (vPPA) with Kisielice wind farm in Poland. This is the first vPPA project established in Poland. It accelerates the transition to a renewable electricity market in Poland and reinforces our long-term commitment to renewable electricity. The renewable electricity generated by the wind farm will power our operations in the country, which accounted for nearly 30% of Signify's global electricity consumption.

Enabling carbon reduction in our supply chain

We engage our supply chain to reduce its carbon footprint. We proactively initiate, develop and support carbon emission reduction activities in the supply chain through our partnership with the CDP Supply Chain program.

Our target for 2020 is to have at least 250 strategic suppliers annually reporting on scope 1 and scope 2 emissions (direct and indirect greenhouse gas emissions) and 200 strategic suppliers annually reporting on emission reduction activities.

In 2019, we invited 404 (281 in 2018) of our strategic suppliers to the program, of which 73% submitted the 2019 CDP questionnaire, which is an increase of more than 80% compared to 2018. This represents 87% of project related spend, which is significantly higher than 2018 (60% of the spend).
In 2019, 160 suppliers reported emission-reduction activities.

In total, our suppliers undertook more than 400 carbon emission projects in 2019, with almost 55 million metric tons of CO_2 emissions saved, which represents over 5 times more CO_2 emissions saved than 2018 (9 million metric tons). This large increase demonstrates the shift our suppliers are making in implementing carbon emission-reduction measures.

CDP reporters per region and topics reported

	Greater China		Rest of the World		Europe		Americas		Total	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Scope 1	78%	70%	80%	62%	85%	61%	76%	61%	80%	65%
Scope 2	52%	43%	68%	62%	63%	44%	76%	56%	62%	48%
Scope 1 & 2	67%	43%	72%	59%	69%	46%	72%	55%	71%	48%
Have a reduction target	57%	58%	68%	54%	62%	42%	60%	39%	61%	48%
Have on-going reduction activities	69%	65%	64%	54%	68%	51%	72%	44%	68%	55%
Climate change opportunities	68%	70%	72%	65%	67%	63%	60%	53%	67%	64%
Climate change risks	57%	61%	64%	54%	60%	44%	52%	45%	58%	52%
Integrated climate change in business strategy	72%	76%	88%	76%	81%	79%	76%	68%	79%	75%
Integrated climate change in risk management	81%	71%	88%	70%	85%	75%	68%	60%	81%	70%
Total amount of reporters	**58**	**105**	**25**	**37**	**52**	**89**	**25**	**62**	**160**	**293**

16.4.3 Circular economy

The rising demand for raw materials and energy is fueled by an increasing global population, while the availability of natural resources and fossil fuels is diminishing. At Signify, we consider the transition to a circular economy as a key enabler in society's pursuit of a more sustainable world. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using material resources more effectively. Our actions cover the whole life cycle of a product: from production, use and re-use to waste management.

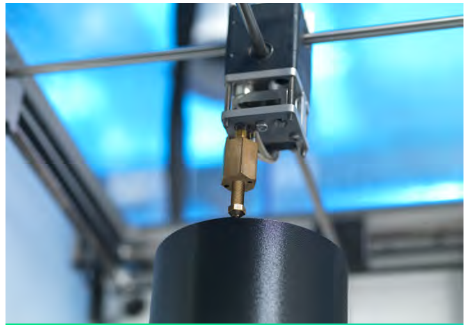
Circular lighting

In our efforts to transition to a circular economy, we developed Signify Circular lighting. This approach applies the "make, use, return" circular economy principles to the lighting industry. Lighting is designed to use resources in a smarter and more efficient way, building in traceability, serviceability, refurbishment and upgrade options, parts harvesting and recycling of used materials.

We offer a sustainable service option allowing our customers to pay for the light used, rather than an upfront investment in the materials. By minimizing materials waste and reducing the environmental impact, we create an ecosystem that extends the life of our lighting products and provides a better future for the next generation. In this seventh year of our circular economy program, five more families of "Circular Economy ready" luminaires were brought to market.

Reducing the weight of materials of our products

Via well-established sustainable design rule Signify continuously lowers the weight of new product designs resulting in less material use and cost for our product portfolio. The sustainable design rules are also optimized for circularity resulting in better serviceability while increasing recyclability.



3D printed professional luminaires

Retail customers like Albert Heijn and M&S aimed for an easy and sustainable refresh of their stores and had a need to upgrade their luminaires without adjustments or cutting into their ceilings. Signify provided them with mass customized 3D printed luminaires, using a 100% recyclable polycarbonate material and shapes tailored to their needs. Additional benefits were the lower weight (less material), no use of paint nor screws and the ease of recycling at the end of their lives, supporting a circular economy.

Our efforts also address supply chain improvements, such as remote serviceability (connected lighting) and end-of-life services. Prolonging lifetimes via serviceability further limits the material use and higher recyclability rates that optimize the reuse of materials, applying the principles of a circular economy.

Zero Waste to landfill

Sending zero manufacturing waste to landfill is one of our Brighter Lives, Better World 2020 commitments. In 2019, we were able to effectively reduce the amount of waste sent to landfill, as defined by our commitment, by 70% compared to 2018. A number of waste categories are excluded from this commitment, such as chemical or hazardous waste, which are mandatory to landfill under legislative regulation or when waste collection and/or treatment is regulated. For more details on our commitment scope, please refer to our Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Our recycling programs address waste arising from manufacturing activities, such as glass or canteen waste, as well as from suppliers, such as packaging materials.

In 2019, total waste to landfill amounted to 0.7 kilotonnes. This is a decrease of waste to landfill of 70% compared to 2018.
This decrease was mainly due to the optimization of waste management in our operations, more accurate weighting methods in Growth Markets and a shift to more sustainable waste contractors in the USA and Mexico.

The focus given to increase the waste recycling rate has also enabled our sites to identify new opportunities for reducing their overall amount of waste.

Total manufacturing waste consists of waste that is delivered for recycling, incineration or landfill.

Manufacturing waste in kilotonnes

	2017	2018	2019
Recycled	37.4 (84%)	33.3 (82%)	32.7 (90%)
Incinerated	2.7 (6%)	3.0 (7%)	2.2 (6%)
Landfilled	4.3 (10%)	4.5 (11%)	1.5 (4%)
In scope of commitment	2.9 (6%)	2.4 (6%)	0.7 (2%)
Total waste	**44.4**	**40.8**	36.4

90% of total waste was recycled in 2019 and we continue to recycle 100% of our metal and glass waste.

Recycling rate per waste category

	2017	2018	2019
Canteen waste	15%	32%	58%
Chemical Waste	46%	22%	29%
Electrical and Electronic Waste	91%	97%	90%
Glass (line rejects)	100%	100%	100%
Metal scrap	100%	100%	100%
Paper/cardboard	99%	99%	99%
Plastic waste	**89%**	**86%**	**84%**

16.4.4 Responsible packaging

Signify pursues a reduction of the environmental impact of its packaging by shifting to responsible materials.
Our packaging policy encourages packaging designers, the purchasing community and suppliers to minimize the environmental impact of packaging materials in all phases of the life cycle. This means reducing the amount of packaging used, selecting packaging materials with a high recycled content, and/or selecting virgin packaging materials with a minimal environmental impact from responsible sources.

Our packaging policy requires for the use of 80% recycled paper. In 2019, Signify continued to work on phasing out plastic materials in packaging. The Signify Packaging policy can be found on our website: https://www.signify.com/global/sustainability.

16.4.5 Hazardous substances

Product substances

Through sustainable design rules, all new product developments meet stringent sustainability criteria before their market launch. All our products and systems delivered to countries requiring the CE marking are compliant with the RoHS Directive (2011/65/ EU) and REACH (EC 1907/2006) regulations. We require all our suppliers to communicate all substances in their components and to comply with the stipulations that we have listed in our Regulated Substance List (RSL), which in many cases goes beyond legislation. In 2019, we continued to engage with our suppliers, further rolling out the publicly available BOMcheck tool, in which components and substances can be registered.

Chemical substances in production processes

We prioritize the safe management of chemicals to ensure that we minimize the risks of the use of these substances related to the environment, society and our employees in their daily work. If there are threats of harm to human safety or the environment, we proactively search for effective alternatives. We have a robust approach to identify and manage regulated and hazardous substances in our production processes.

We ensure compliance through continuous monitoring of chemicals usage in manufacturing sites. In 2010 we developed a program to start the phase-out of several hazardous substances.

Emissions from mercury and mercury compounds totaled 1 kilogram in 2019. The target to achieve emissions As Low As Reasonably Achievable (ALARA) was met in 2015. Signify continues to closely monitor usage, emissions and exposure, to determine if further improvement opportunities are possible.

Emissions from mercury

Since 2012, we have been able to drastically decrease the emissions from mercury by changing our production processes and replacing liquid mercury with solid-state mercury.

Emissions from mercury in kilograms

	2017	2018	2019
Mercury and mercury compounds	5	4	1

Emissions from volatile organic compounds (VOCs) in lacquering processes

Due to improvements in operations relating to the coating of products, the application of targeted VOCs was reduced, and in 2019, chemical painting was shifted to water-based paint. In 2019, Signify continues to phase out styrene in resins used for impregnation by replacing coil ballasts with electronic ballasts.

Additionally, by changing our processes from lacquering to powder coating, Signify reduced the emissions of Toluene.

Emissions of VOCs in lacquering processes

	2017	2018	2019
Lead and lead compounds	2	1	1
Styrene	909	653	233
Toluene	101	65	4
Xylene	670	744	728
Emissions from category 2 substances	**1,682**	**1,463**	**967**

16.4.6 Water

Signify recognizes the growing importance of water usage in our everyday activities. As we continue to expand our portfolio of LED products, systems, and services, the water intensity of our operations continues to decrease. Despite this, some of our manufacturing facilities are located in areas with water stress, such as Saudi Arabia, Mexico and parts of the United States, and may face water scarcity risks. To analyze and quantify our exposure to water risk, we utilized the open source Water Risk Monetizer tool by Ecolab, Trucost, and Microsoft. The results show that 38% of our global water consumption is located in regions classified as having extremely high- or high-water scarcity. While some of our facilities have reuse and recycling measures in place, we continued to implement and identify new and more efficient water saving measures as well as continuing our transition to technology and business models which have a lower dependency on water.

Total water intake in 2019 was 944,000 m^3, 25% lowered compared to 1,266,000 m^3 in 2018. This decrease was mainly a result of lower production volumes in those sites where water is used for cooling purposes. In addition, a decrease in usage was realized through operational changes and an optimization of our industrial footprint. 38% of our sites state that water is primarily used for domestic purposes.

Water intake in thousands of m^3

	2017	2018	2019
Total water	1,321	1,266	944

16.4.7 Biodiversity

Protecting biodiversity is important for Signify and its stakeholders. Through our carbon offsetting projects and partnership with South Pole, we contribute to conserving and restoring forests, safeguarding biodiversity in different regions of the world. For example, our project in Zimbabwe ensures that 785,000 hectares of forest and wildlife on the southern shores of Zimbabwe's Lake Kariba are now being protected. Our reforestation project in Colombia restored 1,116 hectares of forest in Càceres and 9,640 hectares of land have been surveyed and mapped in Cravo Norte. Based on our methodology for calculating societal impact, we created EUR 70 million for society through conserving and restoring forest in 2019.

16.4.8 Environmental incidents

In 2019, Signify experienced no significant environmental incidents. However, one instance of non-compliance related to oil leakage was reported. This incident was resolved in a satisfactory manner and did not result in a fine.

17 Combined independent auditor's report

On the 2019 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 2019 of Signify N.V. (hereafter: the Company) based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Signify N.V. as at December 31, 2019 and of its result and its cash flows for 2019 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, 2019 and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code

We have audited the sustainability information in the annual report for the year 2019 of Signify N.V. based in Eindhoven, the Netherlands (hereafter: the annual report). The scope is described in the section Our Scope. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the sustainability information presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability
- the thereto related events and achievements for the year 2019

in accordance with the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in section 16.1 Approach to sustainability reporting of the annual report 2019 of Signify N.V.

Basis for our Opinions

We performed our audit on the financial statements and the sustainability information in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N “Assurance engagements relating to sustainability reports”, which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. Our responsibilities under those standards are further described in the section Our responsibilities in this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our independence

We are independent of Signify N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the “Wet toezicht accountantsorganisaties” (Wta, Audit firms supervision act), the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent audit engagements. Furthermore, we have complied with the “Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)”.

Our scope

The consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2019
- the following statements for 2019: the consolidated statements of income, comprehensive income, cash flows and changes in equity
- the notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- the balance sheet as at December 31, 2019
- the statements of income and changes in equity for 2019
- the notes comprising a summary of the accounting policies and other explanatory information

The sustainability information is included in chapter 3 Brighter Lives, Better World program and Value Creation Model, section 4.2 Sustainability performance and chapter 16 Sustainability statements of the annual report.

Limitations to the scope of our audit engagement comprising the sustainability information

Unexamined prospective information

The sustainability information includes prospective information, such as goals, strategy, plans, forecasts, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

Unaudited references to external sources

The references to external sources or websites in the sustainability information, with the exception of the Methodology for calculating societal impact and the Supplement to the 2019 sustainability statements (supplement 1 and 2), are not part of the sustainability information as audited by us. We therefore do not provide assurance on this information.

Our audit approach

Our understanding of the business

Signify N.V. is a global provider of lighting solutions. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment. We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks, and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

Financial statements

For the audit of the financial statements our considerations regarding the materiality are as follows:

Materiality	€ 25 million (2018: € 26 million)
Benchmark used	5% of adjusted profit before taxes
Additional explanation	Based on our professional judgment we consider earnings-based measures as the most appropriate basis to determine materiality. Adjustments are made to profit before taxes for elements which are not directly related to the operational performance of the Company as disclosed in note 18 of the annual report.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We have agreed with the Supervisory Board that misstatements in excess of € 1,250 thousand, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgment we determined specific materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organization.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the Company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

We considered available information and made enquiries of relevant executives, directors (including internal audit, legal, compliance and heads of Market Groups and Business Groups) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. As Signify N.V. is a global company, operating in multiple jurisdictions, we considered the risk of bribery and corruption.

We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in the Notes to the financial statements. We have also used data analysis to identify and address high-risk journal entries.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the Board of Management, reading minutes, inspection of internal audit and compliance reports, and performing substantive tests of details of classes of transactions, account balances and disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally, we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

In order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting, we consider, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.
Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our scope for the group audit of the financial statements

Signify N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Signify N.V.

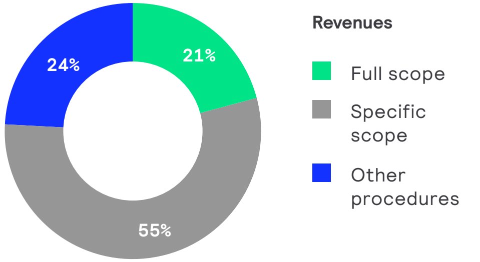
Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

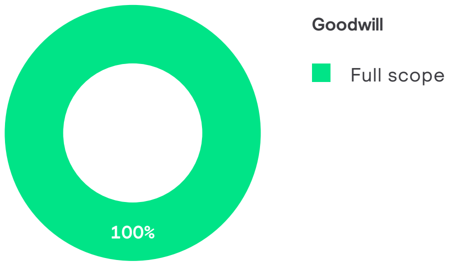
Following our assessment of the risk of material misstatement to Signify N.V.'s consolidated financial statements, we have selected 1 component which required an audit of the complete financial information (Full Scope Component). We have selected 37 components requiring audit procedures on specific account 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 centrally performed audit procedures on accounting areas which are managed centrally such as goodwill, legal claims and treasury.

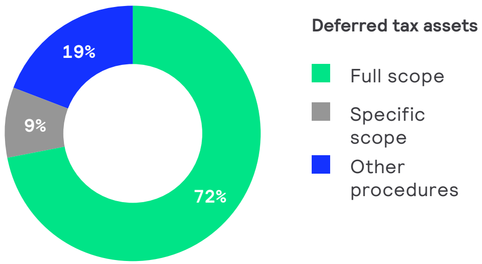
As a result of our scoping, our actual coverage varies per account balance. In addition, the level of detail of our audit procedures per account balance varies depending on our risk assessment.

Of the remaining components, we performed risk-based analytical procedures to respond to any potential risks of material misstatements to the financial statements.

Accordingly, our coverage of the group's Revenues, Goodwill and Deferred tax assets can be summarized as follows:







By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

Teaming, use of specialists and internal audit
We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in Signify's industry. We included specialists in the areas of IT audit, forensics, treasury, pensions and income tax and have made use of our own experts in the areas of valuations and actuaries.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit procedures for the financial statements and the sustainability information. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

The key audit matter "Valuation of deferred tax assets and liabilities for uncertain tax positions" which was included in our 2018 audit, has been changed to "Valuation of deferred tax assets" in our 2019 audit as our audit procedures confirmed a decrease in estimation uncertainty regarding the liability for uncertain tax positions.

The key audit matters were addressed in the context of our audit procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

For the audit of the financial statements we identified the following key audit matters.

Key audit matter	How our audit addressed the matter	Key observations
Improper revenue recognition and risk of management override		
Revenue from the sale of goods is recognized at the point in time that the customer obtains control of the goods. For standard sale of products, control generally passes to the customer at the time the product is delivered and accepted, depending on the delivery conditions. Management focuses on sales as a key performance measure which could create an incentive for sales to be recognized before the customer obtains control of the goods due to the pressure management may feel to achieve planned results. Further reference is made to note 2 to the Consolidated financial statements. We assessed that improper revenue recognition and risk of management override relating to material projects and sale of goods, represents a key audit matter.	Our audit procedures included the assessment of the appropriateness of the Company's revenue recognition accounting policies and the compliance with IFRS as endorsed by the EU. We obtained an understanding of the design of key controls in the revenue recognition process. We used data-analytics to focus on key risk areas and exceptional or unusual revenue streams and patterns. We audited significant sales contracts and performed cut-off procedures to ensure revenue is recognized in the correct period.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognized relating to the sales in 2019.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of goodwill		
At December 31, 2019, the total carrying value of goodwill amounted to € 1,943 million, representing 29% of total assets. Goodwill is allocated to Cash Generating Units (CGUs). Goodwill is 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 impairment triggers and tests. These analyses are based on estimates of future cash flows. An impairment loss is recognized in the Consolidated statements of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the recoverable amount. As the determination of the value in use of goodwill is based on significant judgment and a complex valuation method, including the determination of the CGUs used to assess goodwill for impairment, the allocation of goodwill to CGUs, and the assumptions used in the impairment test to support the recoverable amount of goodwill (as disclosed in note 15), we consider this a key audit matter.	As part of our audit, we assessed and tested the assumptions, methodologies, and data used by the Company in their impairment test, by comparing them to external data such as expected inflation rates, discount rates and implied growth. Additionally, we validated that the cash flow projections used in the valuation are consistent with the approved strategic plans and have evaluated the historical accuracy of management's estimates that drive the assessment, such as expected growth rates. We performed sensitivity analyses by stress testing key assumptions in the model to determine the degree to which these assumptions would need to change before an impairment charge is triggered. We included in our team a valuation expert to assist us in these audit activities. We specifically focused on the sensitivity of the headroom in the CGU Professional and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We assessed the adequacy of the Company's disclosure around goodwill as included in note 15 to the Consolidated financial statements as well as the Company's policies that are more critical in nature as included in note 2 to the Consolidated financial statements.	We consider management's assumptions to be within a reasonable range. We concur with management's conclusion that no impairment of goodwill is required as at December 31, 2019 and with the disclosures in the financial statements.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of deferred tax assets		
At December 31, 2019, the deferred tax assets amounted to € 384 million. Further reference is made to note 9 of the Consolidated financial statements. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The 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 accounting for deferred tax assets was significant to our audit since the Company has extensive international operations and makes judgments and estimates in relation to the realization of deferred tax assets.	With the involvement of our tax experts we evaluated the tax accounting in various jurisdictions in which the Company operates, taking into account the impact of the local tax jurisdiction. With regard to deferred tax assets, we tested management's assumptions used to determine the probability that deferred tax assets recognized in the balance sheet will be recovered. This is based upon forecasted taxable income in the countries where the deferred tax assets originated and the periods when the deferred tax assets can be utilized. These forecasts were evaluated by us and we assessed the historical accuracy of management's assumptions. Where possible, we compared information provided by management to corroborative or contradictory information.	The gradual reduction of the income tax rate in the Netherlands, initially anticipated to be 20.5%, has been amended to 21.7% in 2021 in the 2020 Tax Plan. This resulted in an increase of the deferred tax asset relating to temporary differences on intangible assets of € 6 million, which was recognized as income. We did not identify any evidence of material misstatement of deferred tax assets as recorded in the year-end balance sheet.

For the audit of the sustainability information, we identified the following key audit matters:

Key audit matter	How our procedures addressed the matter	Key observations
Reporting criteria for sustainable revenues		
Sustainable revenues (as disclosed in chapter 16.4.1) is an important key performance indicator (KPI) in the sustainability strategy. This KPI is based on reference products which are continuously improving in time.	Our procedures focused on evaluating whether the self-developed reporting criteria for this indicator are suitable and consistently applied and assessing whether the disclosure of the reporting criteria in the annual report is sufficient for a proper understanding by the reader. Further reference is made to the Sustainability supplement as referred to in chapter 16.1.4.	We concur with the criteria, its application by management and the disclosures made by management.
Estimates and assumptions concerning the calculated impact of avoided CO_2 as presented in the value creation model		
Inherent to the nature of calculating avoided CO_2 and expressing this in monetary terms is that this is to a large extent based on the use of estimates and underlying assumptions which require additional attention in our procedures. Further reference is made to the Value creation model as disclosed in chapter 3.3.	Our procedures focused on evaluating whether the methodology is suitable, consistently applied and assessing the reasonableness of estimates and assumptions. Furthermore, we evaluated whether the related disclosures in the annual report and in the document “methodology for calculating our societal impact” document are adequate.	We concur with the methodologies applied, the estimates and assumptions made by management and the sufficiency of the related disclosures in the annual report and methodology document.

Other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The report of the Board of Management
- The remuneration report
- Other information required by Part 9 of Book 2 of the Dutch Civil Code
- Sustainability statements
- Corporate Governance report

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 and Section 2:135b of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.
By performing these procedures, we comply with the requirements of Part 9 of Book 2 and Section 2:135b sub-Section 7 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements or in our audit of the sustainability information.

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, other information required by Part 9 of Book 2 of the Dutch Civil Code and the remuneration report in accordance with Section 2:135b of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as the auditor of Philips Lighting N.V. (Signify N.V.) on July 15, 2016 for the audit of 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

Our services are only related to the audit of the financial statements.

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 the sustainability information in accordance with the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria as disclosed in note 16 of the annual report, including the identification of the stakeholders and the determination of material issues. The choices made by management with respect to the scope of the sustainability information are included in section 16.1 Approach to sustainability reporting of the annual report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or errors.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the (financial) reporting process of Signify N.V.

Our responsibilities

Our responsibility is to plan and perform the audit engagements in a manner that allows us to obtain sufficient and appropriate audit evidence for our conclusions.

Our audit of the financial statements and the sustainability information have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinions.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

A further description of our responsibilities is included in the Annex to the combined independent auditor's report.

Amsterdam, the Netherlands
February 25, 2020

Ernst & Young Accountants LLP

O.E.D. Jonker

Annex to the combined independent auditor's report

Work performed

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and corporate) included amongst others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our audit to obtain reasonable assurance about the sustainability information included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates by management.
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our audit.
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Identifying and assessing the risks that the sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability strategy, policy and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
  - Visits to production sites in Poland and India aimed at, on a local level, validating source data and to evaluate the design, implementation and operation of control validation procedures.
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the sustainability information
  - Performing an analytical review of the data and trends
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit.
- Evaluating the overall presentation, structure and content of the sustainability information.
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

18 Reconciliation of non-IFRS financial measures

Explanation of non-IFRS financial measures

Certain parts of this Annual Report contain financial measures that are not measures of financial performance or liquidity under IFRS. These are commonly referred to as non-IFRS financial measures and include items such as comparable sales growth, adjusted gross margin, EBITA, Adjusted EBITA, free cash flow and other related ratios.

Although the non-IFRS financial measures presented are not measures of financial performance or liquidity under IFRS, the company uses these measures to monitor the underlying performance of its business and operations. These measures have not been audited or reviewed by the company's external auditor. Furthermore, these measures may not be indicative of the company's historical operating results, nor are such measures meant to be predictive of the company's future results. These measures are presented in this Annual Report because the company considers them an important supplemental measure of its performance and believes that these and similar measures are widely used in the industry in which it operates, as a means of evaluating a company's operating performance and liquidity.

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 Business Group 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 Business Groups and Market Groups.

Sales growth composition per business in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Lamps	(20.5)	1.7	(0.0)	(18.8)
LED	(1.1)	1.9	3.5	4.4
Professional	(1.7)	1.3	1.0	0.5
Home	11.3	1.1	(0.8)	11.6
Signify	**(4.6)**	**1.6**	**1.3**	**(1.8)**

Sales growth composition per market in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(4.4)	(0.1)	0.2	(4.3)
Americas	(7.5)	3.0	0.0	(4.5)
Rest of the World	(2.0)	2.2	0.6	0.8
Global businesses	(4.4)	1.0	18.9	15.5
Total	**(4.6)**	**1.6**	**1.3**	**(1.8)**

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 Business Group 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 Business Groups. 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 Business Group. EBITA, Adjusted EBITA and Adjusted EBITA ratio are also used by the company as key financial measures to assess the operating performance of the Business Groups.

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

	Signify	Lamps	LED	Profes-sional	Home	Other
2019						
Adjusted EBITA	648	222	240	265	20	(100)
Restructuring	(99)	(44)	(8)	(22)	(11)	(14)
Acquisition-related charges	(13)	-	(3)	(9)	-	(0)
Incidental items	(36)	(10)	(12)	(11)	(4)	1
EBITA	**500**	**168**	**217**	**222**	**5**	**(112)**
Amortization [1]	(99)	(0)	(5)	(90)	(2)	(2)
Income from operations (EBIT) [2]	**401**	**168**	**212**	**133**	**3**	**(114)**
2018						
Adjusted EBITA	640	302	212	251	(38)	(87)
Restructuring	(118)	(32)	(8)	(34)	(5)	(39)
Acquisition-related charges	(1)	(0)	-	(1)	-	(0)
Incidental items	(17)	(0)	(0)	(8)	(0)	(9)
EBITA	**504**	**270**	**204**	**208**	**(43)**	**(135)**
Amortization [1]	(94)	(1)	(4)	(86)	(1)	(2)
Income from operations (EBIT) [2]	**410**	**269**	**200**	**121**	**(44)**	**(137)**

1 Amortization and impairments of acquisition-related intangible assets and goodwill.
2. For a reconciliation to income before taxes, refer to note 3, Information by segment and main country, of this Annual Report.

Adjusted gross margin

The company discloses adjusted gross margin as a supplemental non-IFRS financial measure. The company believes it is a meaningful measure to evaluate the company's gross margin on a comparable basis over time. The measure factors out restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales which are not directly related to the operational performance of the company. Adjusted gross margin is also used by the company as a key financial measure to assess the operating performance of the company.

Adjusted indirect costs: adjusted SG&A costs and adjusted R&D costs

The company discloses adjusted gross SG&A costs and adjusted R&D costs as a supplemental non-IFRS financial measure. The company believes it is a meaningful measure to evaluate the company's SG&A costs and R&D costs on a comparable basis over time. The measure factors out restructuring costs, acquisition-related charges and other incidental charges attributable to SG&A and R&D costs which are not directly related to the operational performance of the company. Adjusted SG&A costs and adjusted R&D costs are also used by the company as key financial measures to assess the operating performance of the company.

Income from operations to Adjusted EBITA in millions of EUR

	Reported	Restructuring	Acquisition-related charges	Incidental items [2]	Adjusted
2019					
Sales	6,247	-	-	-	6,247
Cost of sales	(3,940)	50	2	1	(3,887)
Gross margin	**2,307**	**50**	**2**	**1**	**2,360**
Selling, general and administrative expenses	(1,637)	36	11	47	(1,544)
Research and development expenses	(283)	13	-	-	(270)
Indirect costs	**(1,920)**	**50**	**11**	**47**	**(1,813)**
Impairment of goodwill	-	-	-	-	-
Other business income	22	-	-	(13)	9
Other business expenses	(8)	-	-	1	(7)
Income from operations	**401**	**99**	**13**	**36**	**549**
Amortization [1]	(99)	-	-	-	(99)
Income from operations excluding amortization (EBITA)	**500**	**99**	**13**	**36**	**648**
2018					
Sales	6,358	-	-	-	6,358
Cost of sales	(3,976)	50	0	0	(3,926)
Gross margin	**2,382**	**50**	**0**	**0**	**2,433**
Selling, general and administrative expenses	(1,675)	43	1	23	(1,609)
Research and development expenses	(312)	25	-	-	(288)
Indirect costs	**(1,988)**	**68**	**1**	**23**	**(1,896)**
Impairment of goodwill	-	-	-	-	-
Other business income	32	-	-	(17)	14
Other business expenses	(17)	-	-	11	(5)
Income from operations	**410**	**118**	**1**	**17**	**545**
Amortization [1]	(94)	-	-	-	(94)
Income from operations excluding amortization (EBITA)	**504**	**118**	**1**	**17**	**640**

1 Amortization and impairment of acquisition-related intangible assets and goodwill.
2 Incidental items are non-recurring by nature and relate to the separation from Royal Philips, company name change, transformation and real estate gains.

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

	2018	2019
Cash flows from operating activities [1]	381	599
Cash flows from investing activities	(90)	(145)
Cash flows before financing activities	**291**	**454**
Cash flows from operating activities	381	599
Net capital expenditures:		
• Additions of intangible assets	(26)	(29)
• Capital expenditures on property, plant and equipment	(57)	(58)
• Proceeds from disposal of property, plant and equipment	8	16
Free cash flows	**306**	**529**

[1] 2019 includes a positive impact of EUR 71 million from IFRS 16 adoption. Refer to note 1, Basis of preparation.

Free cash flow in millions of EUR

	2018	2019
LED, Professional and Home [1]	370	559
Lamps [1]	308	222
Other	(372)	(252)
Signify total	**306**	**529**

[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

	2018	2019 [1]
Short-term debt	78	96
Long-term debt	1,187	1,369
Gross debt	**1,265**	**1,465**
Cash and cash equivalents	(676)	(847)
Net debt	**589**	**618**
Shareholders' equity	2,041	2,181
Non-controlling interests	78	142
Total equity	**2,119**	**2,324**
Net debt and total equity	2,709	2,942
Net debt divided by net debt and total equity (in %)	22%	21%
Total equity divided by net debt and total equity (in %)	78%	79%

[1] 2019 includes impact from IFRS 16 adoption. Refer to note 1, Basis of preparation.

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

	2018	2019
Working capital	**536**	**388**
Eliminate liabilities comprised in WoCa:		
• Trade and other payables [1]	1,507	1,684
• Derivative financial liabilities	22	20
• Other current liabilities [1]	179	183
Include assets not comprised in WoCa:		
• Non-current assets	3,211	3,541
• Income tax receivable	35	48
• Current financial assets	4	0
• Cash and cash equivalents	676	847
• Assets classified as held for sale	9	4
Total assets	**6,181**	**6,715**

[1] Prior year has been revised to align with the new presentation of the Consolidated statement of financial position. Refer to note 1, Basis of preparation.

Working capital bridge for 2018 in millions of EUR

	Before changes	Accrued liabilities	Customer rebates	Contract liabilities	After changes	
Inventories	878				878	Inventories
Trade and other receivables	1,231				1,231	Trade and other receivables
Accounts and notes payable	(953)	(444)	(163)	54	(1,507)	Trade and other payables
Accrued liabilities	(444)	444				
Other working capital items	(176)		163	(54)	(66)	Other working capital items
Working capital	**536**	**0**	**0**	**0**	**536**	**Working capital**

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.

Carbon footprint
Carbon footprint is expressed in CO_2-equivalent or carbon dioxide equivalent, which is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specific timescale (generally 100 years). Signify measures its operational gross carbon footprint, as well as its net carbon footprint. Signify net carbon footprint = Signify gross carbon footprint - Amount of carbon offset through our carbon offsetting programs.

Circular economy
A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material-, component- and product reuse, as well as new business models such as solutions and services. In a circular economy, the more effective use of materials creates more value, both by cost savings and by developing new markets or growing existing ones.

Compact fluorescent light (CFL)
CFLs usually combine a fluorescent light with an incandescent fixture.

CFLni
Non-integrated CFLs.

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

Continuing net income
Recurring net income from continuing operations, or net income excluding discontinued operations and excluding material nonrecurring items.

Conventional lamps
Non-LED based light emitting light sources, including incandescent lamps, halogen lamps, fluorescent lamps and high intensity discharge lamps.

Conventional luminaires
Light fixtures with a conventional socket (e.g., a screw socket for a conventional lamp or LED lamp).

EBIT
Income from operations.

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

EBITDA
Income from operations excluding depreciation, amortization and impairment of non-financial assets.

Effects of changes in consolidation and other changes
In the event a business is acquired (or divested), the impact of the consolidation (or de-consolidation) on the company's figures are included (or excluded) in the comparable figures. Other changes include regulatory changes and changes originating from new accounting standards.

Effects of currency movements
Calculated by translating the foreign currency financials of the previous period and the current period into euros at the same average exchange rates.

Electronics
Units that regulate the current going through a light source.

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

Employee Net Promoter Score (NPS)
The Net Promoter Score methodology is used to measure employee engagement. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. The scoring for this answer is based on a 0 to 10 scale. Those who respond with a score of 9 to 10 are called Promoters. Those who respond with a score of 0 to 6 are labeled Detractors. Responses of 7 and 8 are labeled Passives. The NPS is calculated by subtracting the percentage of employees who are Detractors from the percentage of employees who are Promoters.

Fluorescent lamp
A lamp which produces light with an electric current conducted through an inert gas producing ultraviolet light that is invisible to the human eye.

Free cash flow
Net cash provided by operating activities minus net capital expenditures. For LED, Professional, Home and Lamps, free cash flow excludes items not allocated to the operating segments, such as interest paid (or received) and income taxes paid.

Global Reporting Initiative (GRI)
The Global Reporting Initiative is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Gross debt
The sum of short-term debt and long-term debt.

Gross margin
Sales minus cost of sales.

Halogen lamp
A type of incandescent lamp with a capsule that holds a special halogen gas composition around the heated filament to increase the efficacy of the incandescence.

High intensity discharge lamp (HID)
A type of conventional lamp that uses electricity arcs between two electrodes to create an intensely bright light where mercury, sodium, or metal halide gas act as the conductor.

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

Incandescent lamp
A conventional lamp that produces visible light by heating a tungsten filament inside a glass bulb usually filled with an inert gas.

Indirect costs
The sum of Selling, general and administrative and Research and development expenses.

International Standardization Organization (ISO)
The International Standardization Organization is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

LED
Light-emitting diode.

LED-based sales
Sales provided by products, systems and services based on LED lighting technologies.

LED drivers
Lighting electronics that convert input power into a current which remains constant despite fluctuations in voltage.

LED lamp
A solid-state semiconductor device that converts electrical energy directly into light.

LED luminaires
Light fixtures where LED modules are integrated into the luminaire as light source and cannot be separated from the luminaire by the user.

LED modules
Light generating units around which luminaires are built for the purpose of emitting distributed patterns of light.

Light-as-a-service contract
Contracts enabling an integrated solution for customers where customers pay for the provision of light to their premises, while the company plans and builds the lighting infrastructure and ensures its performance until the end of the contract.

Lighting services
Services offered to customers building on a lighting system and enabled by data.

Lighting systems
The combination of luminaires, controls and software. The automation and related controls of lighting within a room, building or outdoor facilities for end-users.

Luminaire
Electrical devices that produce, control and distribute light. Also called light fixtures. They consist of one or more light sources, lamps or sockets that connect the lamps to the electrical power (as well as drivers in some luminaires), and the mechanical components required to support or attach the housing.

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

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

Net leverage ratio (term loan facility agreement of 2016)
The ratio of consolidated total net debt to consolidated adjusted EBITDA for the purpose of calculating the facility covenant for the term loan and revolving credit facility.

Net leverage ratio (bridge loan facility agreement)
The ratio of consolidated reported net debt to consolidated reported EBITDA for the purpose of calculating the bridge loan covenant.

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.

Productivity
Signify uses Productivity internally and as mentioned in this Annual Report as a non-financial indicator of efficiency that relates the added value, being income from operations adjusted for certain items such as restructuring and acquisition-related charges plus salaries and wages (including pension costs and other social security and similar charges), depreciation of property, plant and equipment, and amortization of intangibles, to the average number of employees over the past 12 months.

R&D expenses
Research and development expenses.

Renewable electricity
Percentage of total electricity usage from renewable sources.

Responsible Business Alliance (RBA)
The Responsible Business Alliance (RBA, formerly known as Electronic Industry Citizenship Coalition) was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. The RBA now includes more than 100 global companies and their suppliers.

Restructuring costs
The estimated costs of initiated reorganizations, the most significant of which have been approved by the company, and which generally involve the realignment of certain parts of the organization.

Royal Philips
Koninklijke Philips N.V. (‘KPNV’) and its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code.

SG&A expenses
Selling, general and administrative expenses.

Signify
Signify N.V. (the “Company”, formerly known as Philips Lighting N.V) and its subsidiaries, within the meaning of Section 2:24b of the Dutch Civil Code.

Supplier sustainability performance
The supplier sustainability performance rate represents the percentage of risk suppliers with an audit score of at least 90 out of 100 points.

Sustainable innovation
Sustainable innovation comprises all research & development activities contributing to lighting technologies considered for sustainable products, systems or services. This means all products, systems, or services that demonstrate a measurable positive impact in energy efficiency (10% or greater), and preferably in one or more sustainable focal areas: Circularity, Weight & Materials, Packaging, Substances, Human Centric Lighting, Basic Needs or Access to Light. Sustainable innovation spend is the cumulative spending of all R&D projects contributing to sustainable innovation.

Sustainable revenues
Sustainable revenues are measured as a percentage of total revenues per product category and tracked for each Business Group. Sustainable products, systems or services must demonstrate a measurable positive impact in energy efficiency (10% or greater), the most impactful of our sustainable focal areas. Sustainable revenues are defined as products with an energy efficiency of 66 lm/W and higher as well as all systems and services, as these provide additional energy savings.
Sustainable products outperform reference products (predecessor product in the particular product family), or product-specific eco-requirements, or by being awarded with a recognized eco-performance label. The lifecycle approach is used to determine the environmental impacts and improvements of our products over their total life cycle (from raw materials, manufacturing, packaging, transportation, product use to disposal). Studies have shown the product use phase being the most important for lighting products.

Switch
Wall mounted devices designed to (i) change the electric connections among its terminals or (ii) engage with the pins of a plug and having terminals for the connection of cables or cords (i.e., socket contacts).

Total Recordable Case rate
Number of injuries and illnesses sustained at work that result in medical treatment, restricted work, lost work-days, or fatality, divided by 100 FTEs.

Weighted average statutory income tax rate
The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the company result before tax.

Working capital
The sum of Inventories, Trade and other receivables, Other current assets, Derivative financial assets minus the sum of Trade and other payables, Derivative financial liabilities and Other current liabilities.

Zero waste to landfill
Zero waste to landfill refers to manufacturing sites diverting their manufacturing waste to recycling or incineration, opposed to landfill.
To determine waste to landfill in scope of our commitment we exclude the following categories: chemical waste, hazardous waste, one-time waste and regulated waste. When more than 99% of the total operational waste generated from a site is diverted from landfill, a site is considered to qualify as sending ‘zero waste to landfill’.

20 Forward-looking statements and other information

Forward-looking statements and risks & uncertainties

This document contains forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Signify N.V. together with its subsidiaries, including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing Signify and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: fundamental shifts in the industry, the adoption of lighting systems and services, adverse economic and political developments, competition in the general lighting market, integration risks relating to acquisitions, successful implementation of business transformation programs, failure to drive operation excellence and ensure effective supply change management, pension liabilities and costs, exposure to international tax laws. Please see chapter 12, Risk factors and risk management, of this Annual Report for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of Signify. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Annual Report.

Additional risks currently not known to Signify or that Signify has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of Signify or could cause the forward-looking events discussed in this document. Signify undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

Market and industry information

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

Non-IFRS financial measures

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

Fair value information

In presenting Signify's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid on the balance sheet date. When quoted prices or observable market values do not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

IFRS basis of presentation

The financial information included in this document is based on the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), as explained in the significant accounting policies, unless otherwise indicated.

Statutory financial statements

Chapter 14, Consolidated financial statements and chapter 15, Signify N.V. financial statements, of this Annual Report, contain the statutory financial statements of Signify N.V.

Regulated information

This document contains regulated information within the meaning of the Dutch Financial Markets Supervision Act.

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