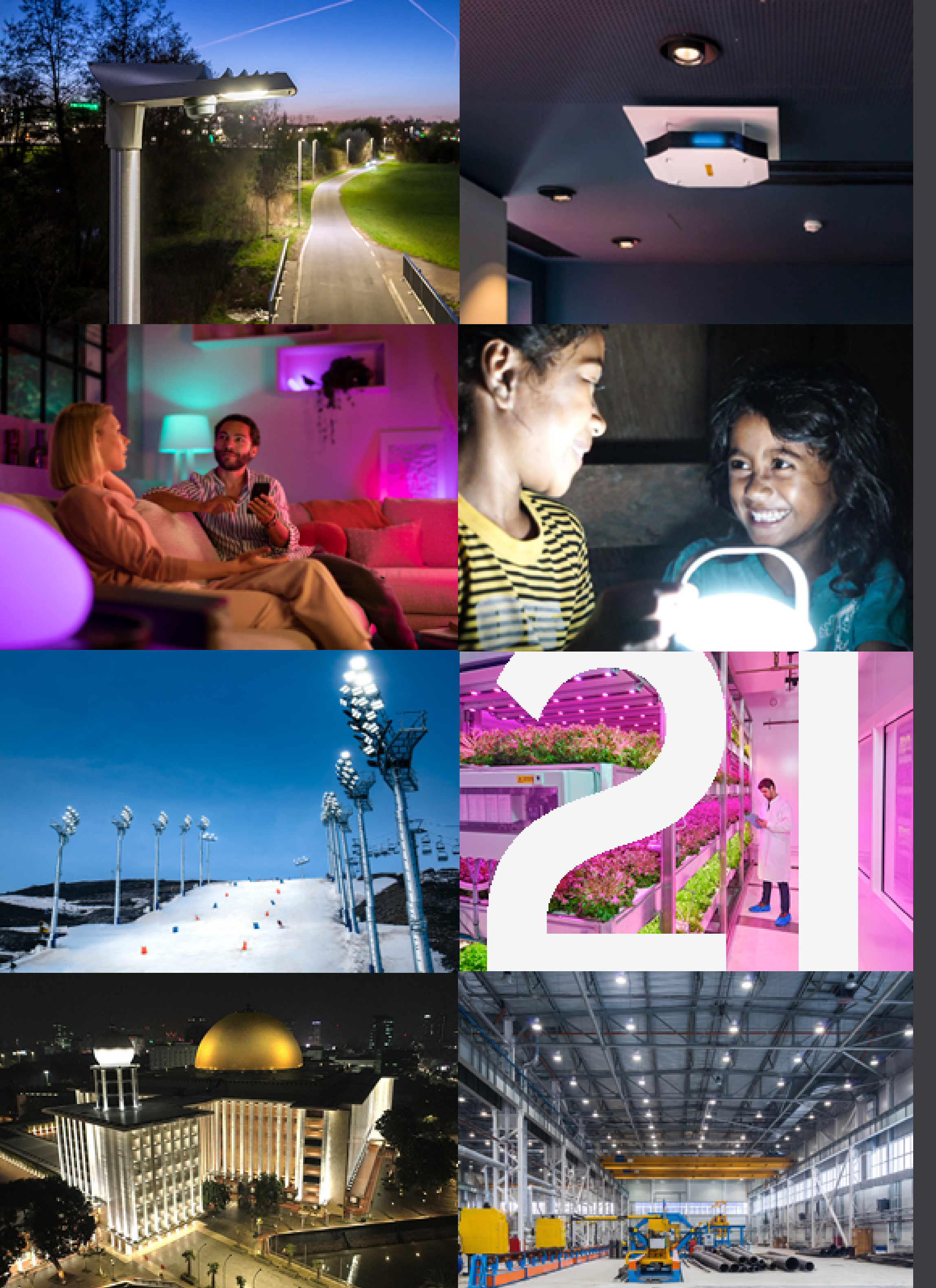


Annual Report 2021

signify

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

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

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

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

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

Our values

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

“With Trulifi we can now offer our high-level clients a broadband connection that is wireless, both reliable and secure.”
Marije Bouwman, Director of Operations, Safety & Security at World Forum The Hague

“Thanks to this improved build-up of the crop winter production is clearly higher and the quality of the fruit is super. Now we can realize a constant production of top quality year-round. I am very pleased with the way in which Signify has handled this. We worked together very constructively, and the result is impressive.”
Ad Verhoeven. Owner of Kwekerij Verhoeven

“We are proud to be the first professional sports team in the UK to use UV-C disinfection lighting technology, and we expect to see it widely utilized in future across the sports and events industry.”
Laurie Dalrymple, Chief Executive Officer, Harlequins

“With LED lighting installed on our sites instead of conventional lighting, we expect lighting-related energy consumption to decrease by up to 65% and as much of a decrease in associated carbon dioxide emissions."
Corinne Hodan, Procurement Performance Director, Air Liquide

Always act with integrity

“Acting with integrity means working in front of a mirror and always be sure you trust the person you see.”
Joe Holevinski, Director, Digital Experience, Cooper Lighting

Table of contents

We are Signify

1 Performance highlights 5
2 CEO message 7
3 Creating value 11
4 Corporate performance 25
5 Three-year overview 33

Governance

6 Board of Management 35
7 Supervisory Board 36
8 Supervisory Board report 38
9 Remuneration report 45
10 Corporate governance 62
11 Investor relations 68
12 Risk factors and risk management 71
13 Statement of the Board of Management 79

Corporate statements

14 Consolidated financial statements 82
15 Signify N.V. financial statements 127
16 Sustainability statements 135
17 Combined independent auditor's report 163
18 Reconciliation of non-IFRS financial measures 176
19 Definitions and abbreviations 180
20 Forward-looking statements and other information 184

European single electronic reporting format (ESEF) and PDF version

This copy of the Annual Report is the PDF/printed version of the Annual Report 2021 of Signify N.V. This version has been prepared for ease of use, and does not contain ESEF information as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The official ESEF reporting package is available on our website at https://www.signify.com/static/2021/signify-annual-report-2021.zip.

Forward-looking statements and risks & uncertainties

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

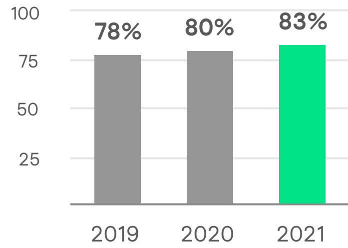
We are Signify

1 Performance highlights

1.1 Financial performance

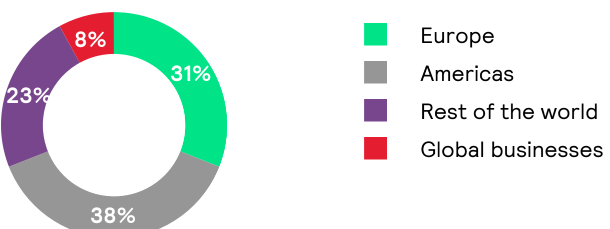
	2020	2021
Comparable sales growth	(12.7)%	3.8%
Nominal sales growth	4.1%	5.5%
Adjusted EBITA margin	10.7%	11.6%
Net income *	335	407
Free cash flow *	817	614
Net cash provided by operating activities *	891	704

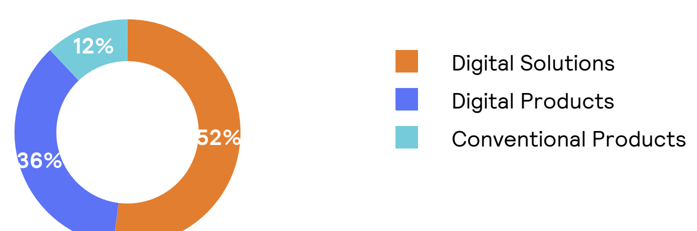
- In EUR million



Divisions	Digital Solutions	Digital Products	Conventional Products
Sales *	3,524	2,452	861
Comparable sales growth	3.4%	8.8%	(6.9)%
Nominal sales growth	8.3%	7.2%	(8.7)%
EBITA margin	9.0%	13.2%	18.4%
Adjusted EBITA margin	11.3%	13.8%	18.7%

- In EUR million



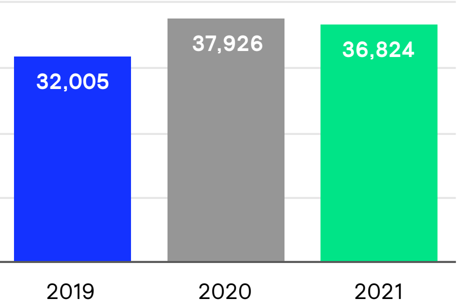


This chapter contains certain non-IFRS financial measures and ratios, such as comparable sales growth, EBITA, Adjusted EBITA and free cash flow, and related ratios, which are not recognized measures of financial performance or liquidity under IFRS. These measures are further discussed in chapter 4, Corporate performance, 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

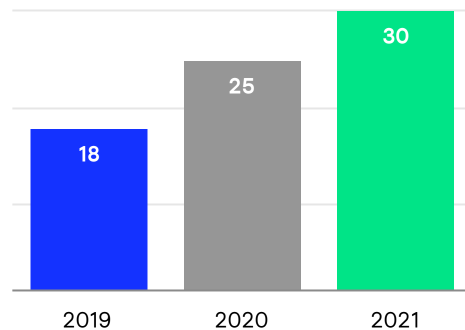
Brighter Lives highlights	2020	2021
Brighter lives revenues	*	25% - 27%**
Women in leadership	23%	25%
Safety at work (TRC rate)	0.22	0.17
Supplier Sustainability Performance	99%	98%
Lives lit since 2017 (in million)	6.0	7.2

Employees (full-time equivalent)



Better World highlights	2020	2021
Carbon reduction over value chain against Paris Agreement	*	On track**
Circular revenues	*	21% - 25%**
Climate actions revenues	*	61% - 64%**
Carbon neutral operations	100%	100%
Total waste to landfill***	<1%	<1%

Employee Net Promotional Score



* New Brighter Lives, Better World 2025 sustainability KPIs reported for the first time in 2021
** 2021 results/assessments are based on current level of availability and accuracy of data
*** Zero waste to landfill definition was updated in 2021; refer to chapter 19, Definitions and abbreviations, of this Annual Report.

2 CEO message

2021 – Strengthening Signify's growth profile in a challenging external environment

"I am very proud of our team's rigorous execution of our strategy amid the considerable external challenges presented in 2021. We safeguarded the health and well-being of our employees and minimized supply chain disruptions to our customers while further improving our financial profile. We continued to strengthen our growth profile and remain on course to double our positive impact on the environment and society." – Eric Rondolat, Signify CEO

2021 presented us with extraordinary challenges brought on by the ongoing impact of the COVID-19 pandemic, namely high levels of disruption to global supply chains. We navigated these challenges well and successfully minimized the impact on our customers. The continued health crisis sharpened our focus on the welfare of our employees and in 2021 we went to considerable lengths to protect their physical and mental health, and ensure their well-being. I take great pride that amid these challenges, we continued to make progress on our journey to double our positive impact on the environment and society.

We are encouraged by the high demand for connected lighting and for our growth platforms. They accounted for one quarter of our business in 2021. While global supply chain issues impeded our ability to meet the high demand, most notably in Q3, our sales returned to growth on a comparable basis. By swiftly taking multiple mitigating actions and simultaneously managing our prices to offset the structural part of inflation, we further improved our profitability and ensured continued investment in our digital initiatives. And once again, we generated a solid free cash flow. All of these demonstrate that the fundamentals of our business are stronger than ever, driven by the ever-growing need for energy-efficient and digital lighting technologies.

Our strategic focus

Our teams have rigorously executed our strategy while adapting to the continuing COVID-19 pandemic and its subsequent supply chain disruptions. Our strategic direction has been reinforced around our 5 Frontiers, which focuses on being even more customer centric, delivering differentiated offers, driving growth for sustainability, digitalizing and transforming for the future, and being a great place to work.

In 2021, we further adapted our company structure by moving to a leaner central organization. At the same time, we achieved cost saving measures while increasing our focus on innovation and sustainability. Overall performance improved despite the troubled external environment:

- Comparable sales growth was 3.8%, driven by our digital divisions
- Our connected lighting sales represented 20% of total sales by the end of the year, increasing our total connected light points to 96 million globally
- Our adjusted EBITA margin improved by 90 basis points to 11.6%
- Free cash flow amounted to EUR 614 million, representing 8.9% of sales

Our acquisitions

In 2021, we strengthened our business with two acquisitions. In the summer we announced the acquisition of Telensa Holdings Limited (Telensa), a UK-based expert in wireless monitoring and control systems for smart cities. The acquisition supports our strategic priority to grow in professional systems and services and broadens the group of customers we can serve. Telensa adds a narrow-band and TALQ-compliant solution to our feature-rich, open and secured systems. Together, we can help towns and cities around the globe reap the benefits of connected lighting in a cost-efficient way by utilizing the unlicensed radio space, bringing them into a smart city central management system.

And just before the end of the year we announced our intended acquisition of Fluence for USD 272 million, to strengthen our Agriculture lighting growth platform in North America. This acquisition enables us to capture the full potential of the US market for bio-based and non-bio-based crops, building on our strong existing European footprint. We expect the global market for agricultural lighting to grow by more than 20% per year to EUR 1.6 billion in 2024.

Our financial performance

In 2021, our business continued to recover from the initial impact of the COVID-19 pandemic. Strong demand for connected lighting, paired with a solid performance of our growth platforms, underpinned this recovery. And while global component shortages and logistics challenges affected our ability to meet the high demand, we still managed to record comparable sales growth of 3.8%. The mitigating actions we took, in combination with disciplined price management to offset inflation, enabled us to improve the Adjusted EBITA margin for the eighth consecutive year. And we once again generated a solid free cash flow of EUR 614 million.

Further cost optimizations, including in our head office, have reduced our adjusted indirect costs to 29.6% of sales. At the same time, the rigorous execution of our strategy and continued investments in our digital initiatives further improved our competitiveness in a rapidly moving lighting industry.

Our commitment to innovation

In 2021, we invested 4.1% of our sales in R&D, focusing on three pillars: innovating in lighting technology, bringing the Internet of Things (IoT) into lighting, and innovating in our growth areas.

In lighting technology, we launched the Philips Ultra Efficient LED lamp, which is 60% more energy-efficient than other LED lamps, and the Philips TrueForce LED highbay, a universal HID replacement lamp that enables fast and hassle-free conversion to LED for our B2B customers.

In consumer IoT, we upgraded the Philips Hue experience with a deep Spotify integration and a more intuitive app with enhanced functionality. For professional customers, we added new capabilities to our Interact Pro system, enabling gateway-less commissioning of Interact Ready luminaires, sensors and switches. Together, these contributed to boosting the installed base of connected light points by 19 million to 96 million.

In our Growth areas, our efforts to standardize UV-C safety requirements around the globe were rewarded with DEKRA certification for our UV-C desk lamp, a first in our industry. We further extended our 3D printing capabilities to design unique, one-of-a-kind luminaires to customers' specifications. Our fast, secure LiFi connectivity solution was deployed for the first time in commercial aircraft, and at the World Forum in The Hague, where privacy and security are top priorities. And finally, we launched BrightSites, a new industry-leading innovation that can create a high-speed wireless communication backhaul network using our luminaires.

I am extremely proud that our teams' efforts in innovation continue to be recognized. We improved our position in the European Patent Office's World Top 100 Most innovative Companies to 21st, ranked 36th on the IP GREEN100, and our long legacy in design received 40 world-class awards, including 12 iF and 11 Red Dot awards.

Our commitment to sustainability

It is integral to our Five Frontiers strategy that our growth must not be at the expense of the earth, but to its benefit. Our strategy identifies five domains for innovative and sustainable growth: contributing to climate action, contributing to a circular economy, increasing food availability, enhancing safety and security, and improving health and well-being.

Our ambitious sustainability program, Brighter Lives, Better World 2025, builds on our 2020 achievement of carbon neutrality in our operations. Through this program, we will amplify our positive impact by enabling our customers and suppliers to become more sustainable. I am proud to say for all our commitments we are on track to double our positive impact on the environment and society by the end of 2025.

This year, we accelerated our actions to combat climate change and I would like to mention a few highlights. We launched our Green Switch program in Europe and our Brighten America program in the US to connect the dots between climate action and economic growth. We announced our most energy-efficient commercial light bulb ever, and we are on track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5° scenario. In 2021, we were at the top of the DJSI World Index for the fifth consecutive year and ranked in the top 1% of our industry according to Sustainalytics.

"The progress we are making on embedding digital technologies in our offerings and operations will enable us to enhance our leadership in a continuously moving industry."

Our commitment to our customers

Our strategy places the customer at the center of our organization. To fulfil this promise, we have continued to build the strong digital and excellence capabilities that improve customer experience and business processes. Our progress was rewarded with multiple awards at the annual European Customer Centricity Awards 2021, most notably the gold medal for statistics modelling.

We have further strengthened our quality standards and started a competency development program within our design and manufacturing environment to improve quality and customer satisfaction.

As part of our continued journey towards organizational excellence, we used the European Foundation of Quality Management (EFQM) model to assess another ten markets and businesses. 20% of all assessed entities achieved a score of more than 500 points, demonstrating an indisputable track record of success in turning strategy into action and their commitment to performance excellence, which brings them closer to being "Best in class" organizations.

While structural improvements are tangible, we have not been able to deliver to our customers at the expected levels given the overall disruption in the global supply chain. Indeed, 2021 was a disruptive year for our supply chain, which was hit by a global transportation crisis, a heavily volatile raw materials market, and global components scarcity. All our teams, in every geography, anticipated and adapted to the changing environments with a single priority: minimizing disruption to our customers.

Our digitalization journey

The supply chain disruptions also emphasized even more the importance of our ongoing digitalization journey. Improving end-to-end visibility within the full value chain will help us respond even faster to customer demand and changing market environments, as our customers have a growing interest in engaging with us through digital channels.

In 2021, digital sales via our B2C channels increased by 53.6%. We have pivoted to an Agile delivery model with strong market focus to further accelerate and strengthen our customer interfaces. Our teams continue to have daily interaction with our customers, learn, and further develop new features for our digital channels.

We made solid progress in digitalizing operations this year. In Digital Supply chain, we have improved Demand, Supply and Inventory Optimization processes, increasing our service levels. In Digital Manufacturing, we have digitalized, standardized and automated much of our product handling and inventory management, increasing visibility and productivity in our warehouses.

To ensure synergies in our strategy and delivery model, we consolidated our global Digital organization to merge the three pillars of our digital transformation - Digital, Data and IT- under a single leader. We will continue to strengthen the digital organization with strategic leadership hires.

Our commitment to being a great place to work

In 2021, the physical and mental health, safety and well-being of our employees and their families remained a priority. To help provide our employees with a safe working environment, we started installing UV-C disinfection devices in 138 projects in our offices and buildings.

A diverse workforce and an inclusive work environment are essential to a thriving, innovative business. This year we will publish our first annual Diversity, equity and inclusion (DE&I) report. And as part of our Brighter Lives, Better World 2025 program, we increased our ambitions on diversity, equity and inclusion, committing ourselves to double the percentage of women in leadership positions to 34% by the end of 2025. We further aim to achieve 40-60% gender balance targets for the management and professional levels of our organization by 2025.

As an employer, we take pride and encouragement from the external

recognition we receive. Most recently, Equileap recognized us as one of the ten leading companies in the Netherlands on workplace equality and placed us second in gender equality in the supply chain. And earlier in 2021, we received employer recognition in Brazil, China, India, the Netherlands and Singapore.

We continue to build our learning culture and develop our employees, prioritizing digital and commercial excellence. This year, our customers and employees improved their skills during multiple virtual sessions.

Our robust succession plans for leadership roles have resulted in greater diversity in our candidate pool, with 36% of succession candidates being women. In 2021, over 80% of our leadership positions were staffed internally, confirming the success of our efforts to build a strong internal succession pipeline.

This year, keeping people and teams connected has been both important and challenging. Our quarterly employee survey has thus proven particularly insightful. Employee NPS showed a continued improvement, from 25 in 2020 to 30 in 2021, with 80-85% participation levels throughout the year.

Our thanks

On behalf of our Board of Management and our entire leadership team, I want to thank our employees, who continue to show tremendous dedication, creativity and resilience and each day fulfil our purpose to unlock the extraordinary potential of light for brighter lives and a better world.

I also thank our customers for their trust and loyalty, especially during these challenging times. This continues to motivate us to do our best every day.

And finally, I thank our shareholders for their continued confidence in us and in the execution of our strategy. Our 5 Frontiers strategy, with sustainability and innovation at its heart, will help us to continue to lead our industry to higher levels of energy-efficient lighting innovations and new standards in connectivity.

Our fundamentals have never been stronger and will continue to strengthen our position as the world leader in lighting, achieve multidimensional growth, and create value for all our stakeholders.

Eric Rondolat
CEO Signify

3 Creating long-term value

3.1 Our strategy

Who we are

Signify, headquartered in Eindhoven, the Netherlands, is the world market leader with recognized expertise in the development, manufacture and sale of innovative, energy-efficient lighting products, systems and services. With over 36,800 employees, a presence in 74 countries and our sales covering a global market, our purpose is to unlock the extraordinary potential of light for brighter lives and a better world.

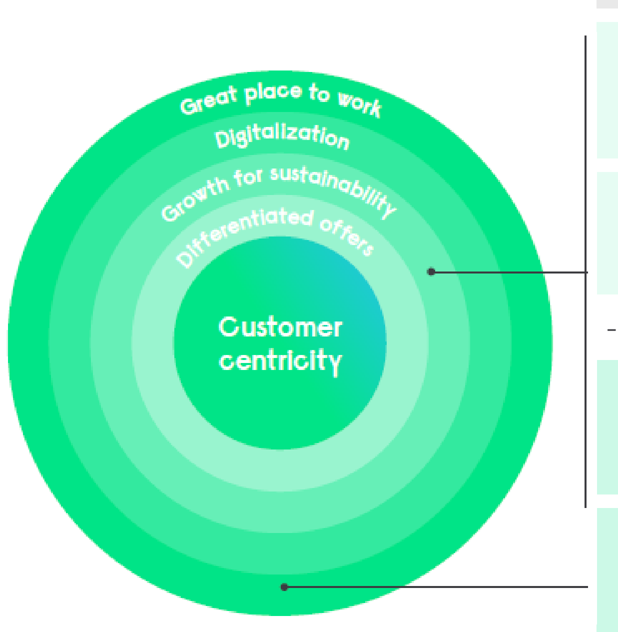
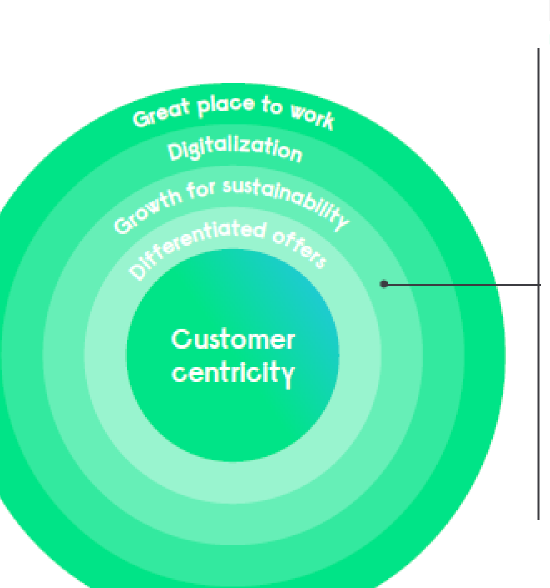
We have pioneered many key breakthroughs in lighting over the past 130 years and have been a driving force behind several leading technological innovations. Signify continues to innovate in LED lighting and is leading the industry's expansion to lighting systems in both the professional and consumer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

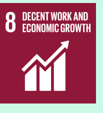
Strategic context

Our world is facing the combined challenges of climate change, resource scarcity, supply disruptions, demographic transformation and increasing urbanization. These mega trends are affecting the way we operate. Our industry is transforming, shaped by new technologies, mergers and acquisitions, shifting buying habits and new competition. We are seeing a shift to more digitally savvy and sustainably informed, who want to be served faster, better and differently. Digitalization is increasing, driving the demand for smarter technology and online services.

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

As a result of our annual review, in 2021, we furthered our focus on delivering on our 5 Frontiers strategy and on progressing on the commitments of our new Brighter Lives, Better World 2025 sustainability program that we launched in 2020.

Sustainability focus and UN SDGs		Doubling objectives	
Climate action		**Double** the pace we achieve the 1.5°C scenario of the Paris Agreement	**Better World**
Circular economy		**Double** our Circular revenues to 32%	
Food availability **Safety & security** **Health & well-being**		**Double** our Brighter lives revenues to 32%	**Brighter Lives**
Great place to work		**Double** our percentage of women in leadership to 34%	

Partnering on logistics to save costs, improve illumination, and boost productivity

Working with DHL Supply Chain, we embedded digital lighting technologies to help co-create the warehouse lighting of the future.

Customer challenge

We evaluated potential logistics partners to outsource our warehousing operations in the US. We also wanted to work on a warehouse design which would showcase the latest connected lighting technologies. We decided to partner with DHL Supply Chain because we share many of the same corporate values and a vision on digitalization and sustainability. From the outset, it was clear that our partnership had the potential to go beyond a single warehouse to bring value to other similar facilities.

Solution

We first replaced the old fluorescent-tube lighting with LED high bay luminaires, which consume only about half of the energy. We co-created a smart warehouse lighting system where all the luminaires are wirelessly monitored, managed and controlled by Interact Industry, bringing additional benefits in terms of shopfloor usage optimization, workers' safety, and productivity improvements.

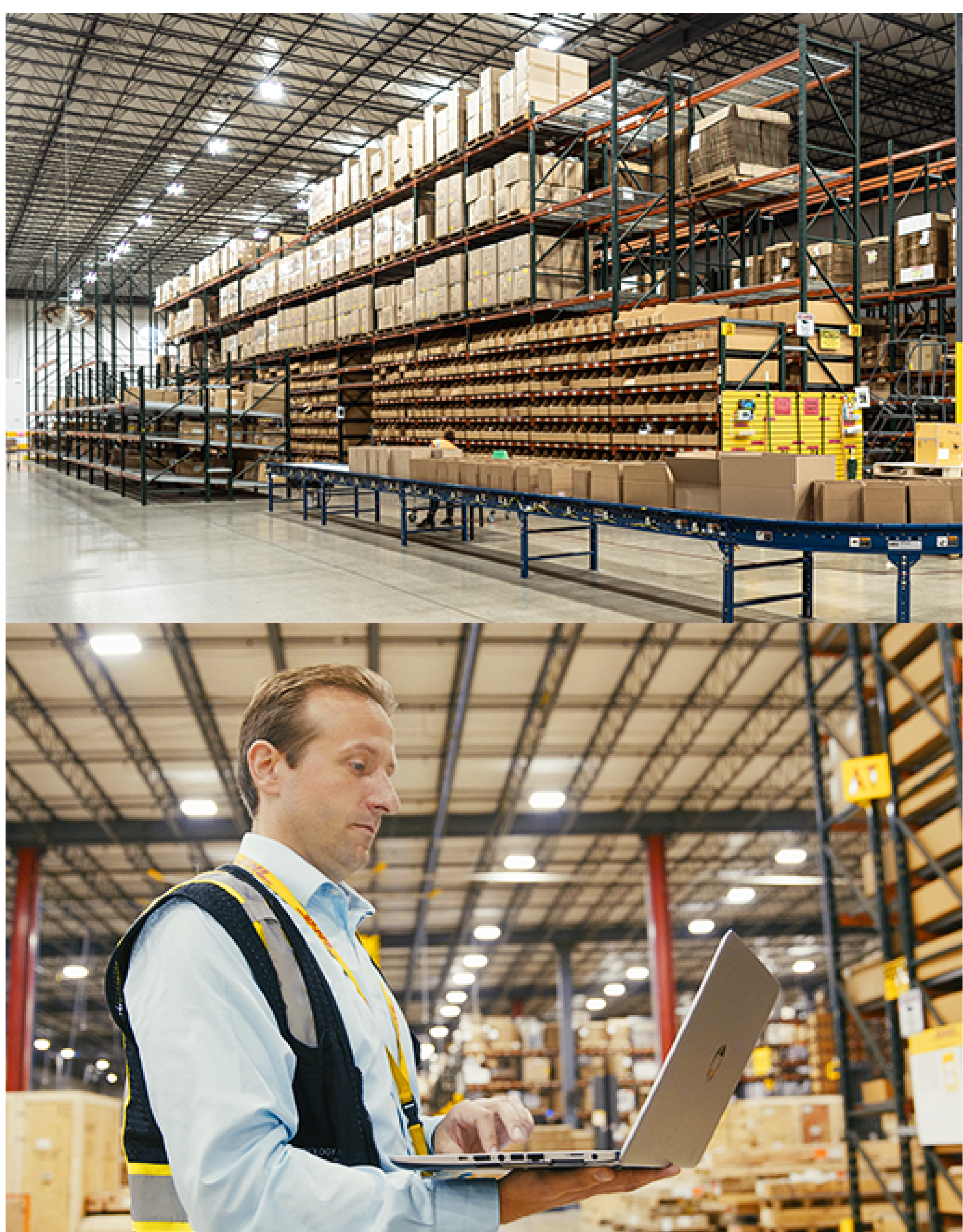
We offered DHL Supply Chain the latest and most transformative industrial lighting technology and related services, putting it all to work as part of a pilot program at a DHL Supply Chain site in Lockbourne, Ohio.

“We are shooting for a million-kilowatt hours savings in this system on an annual basis. Right now, that's exactly where we're tracking today."
Marty Reibold
General Manager Technology, DHL Supply Chain

Following this initial success, DHL Supply Chain plans to use the advanced capabilities of Interact Industry's connected infrastructure to drive several key initiatives. We're already working together to expand on the success of the pilot at other DHL Supply Chain sites.

Interact Industry

Interact Industry is a cloud-based connected lighting system that supports new operational efficiencies and centralizes lighting management. The capabilities of Interact Industry go far beyond illumination. For example, the scene management capabilities are ideal for managing different lighting needs in different parts of a facility. DHL Supply Chain created 75 zones each with unique lighting characteristics managed centrally by Interact Industry. This improved productivity and employee satisfaction and well-being at the Lockbourne site.



Interact Industry - DHL Supply Chain - US

Philips Hue + Spotify

Feel the music with deep integration of Spotify and Philips Hue

Seamless pairing of lights and music offers an immersive home entertainment experience like no other.

Challenge
Since the advent of smart home lighting, music lovers have matched their Philips Hue lights with music to recreate the magic of live entertainment in their own homes. Apps offered this service by accessing the microphone on users' devices to sense and respond to the music.

This meant that the lights would always respond to the music instead of working in sync. And simply taking a voice call could disrupt the experience, since the lights would respond to background noise picked up by the microphone.

As Philips Hue wants to provide its Hue users the best possible smart home lighting experience, it set out to find a more sophisticated way to match light and music.

Solution
Spotify and Signify brought together their world-leading expertise in music streaming and smart lighting to create a solution that seamlessly unites light and audio, without using the microphone. Philips Hue users can simply pair their Spotify account directly within the Philips Hue app.

Once paired, a new, jointly-developed algorithm analyzes the metadata of each song in real time, translating digital music into digital lighting.

Lights flash, dim and change color according to the song's beat, mood, genre and tempo. Users can set their personal preferences on how lights respond, including setting their own color palettes, within the Philips Hue app.

And since the system bypasses the microphone, people can use their phone to do other things at the same time.

Philips Hue + Spotify value proposition
The world's leading audio streaming subscription service meets the world's leading smart home lighting platform.

Philips Hue + Spotify is a unique deep music and lighting integration that makes the world's best loved light and music apps work together in perfect harmony.

When Spotify and Philips Hue are connected, Philips Hue can match its lights to any song on Spotify, so people can hear, see and feel the music like never before.

3.2 Our impact

Our commitments and 2021 achievements

Despite a particularly disrupted external environment, tainted by an ongoing global pandemic and global supply chain challenges, Signify made significant achievements on all its strategic frontiers in 2021. The table below shows that we are on the right path to fulfill our purpose to unlock the extraordinary potential of light for brighter lives and a better world.

Our 5 strategic frontiers	Description	Our targets	Our achievements
1. Build a customer-centric organization	We are building a more customer-focused, more localized operating model and driving improved process excellence.	• Steadily increase customer Net Promoter Score (NPS)	• Customer NPS: 44 (2020: 41)
2. Deliver differentiated lighting offers	We are developing and delivering differentiated lighting products through multiple distinctive brands.	• Grow tiered offering sales	• 4.1% of sales invested in R&D and 19,600 patent rights • Comparative sales growth of 3.8%
3. Drive growth for sustainability	We are addressing global challenges by focusing on growth areas for sustainability: Climate action, Circular economy, Food availability, Safety & security, Health & well-being.	By the end of 2025: • Double the pace we achieve the 1.5°C scenario of the Paris Agreement • Double our Circular revenues to 32% • Double our Brighter lives revenues to 32%	• On track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5°C scenario • 21% - 25% Circular revenues • 25% - 27% Brighter lives revenues
4. Digitalize and transform for the future	We are improving our digital front and back-ends and increasing our data analytics capabilities to better serve our customers.	• Increase our (B2B/B2C) online sales	• Direct online sales at 13.4% of revenues (2020: 12%)[1]
5. Be a great place to work	We are investing in our people, creating a diverse and inclusive workplace, deepening our digital and commercial competencies.	• Double the % of women in leadership to 34% by the end of 2025 • Increase digital and commercial excellence capabilities	• 25% women in leadership position • Employee NPS: 30 (2020: 25) • 69% of active learners

[1] 2020 data has been updated to include Cooper Lighting

Raising the bar on energy-efficient LED lighting

Breakthrough Philips Ultra Efficient LED bulbs use 60% less energy and last generations.

Challenge
All lighting products in the European Union carry an energy rating from A-G. Consumers pay attention to this, with 79% agreeing that a product's energy label influences their purchase decision.[1]

In September 2021, the EU introduced a new, more stringent system of energy labelling that would reserve the highest A label for a new generation of lighting products with an efficiency of at least 210 lm/W.

Solution
Signify's R&D team rose to the challenge with a game-changing new product that was developed, manufactured, and ready to hit the shelves on the day the new standard was introduced.

The Philips Ultra Efficient light bulb is the first lighting product in Europe to proudly carry the EU's highest A-rating in energy efficiency.

This straightforward replacement for a regular conventional or LED bulb makes use of a multitude of patented individual technology breakthroughs to deliver beautiful, crystal-clear light that requires 60% less energy than standard LEDs.

Since the lights consume just a fraction of the electricity, consumers can take direct action to mitigate climate change, while also saving money on their electricity bill.

What's more, the bulb lasts much longer, meaning less waste and lower replacement costs.

Philips Ultra Efficient light bulbs
The Philips LED A-class bulb is the first in a new range of Ultra Efficient products that use a new technology to cut carbon emissions, reduce material waste, and lower energy usage.

The bulbs are available in 40W and 60W equivalents and in warm and cool white light. Like all consumer products from Signify, the bulbs are wrapped in zero-plastic packaging.

Philips LED lights carry the EyeComfort mark, indicating that they meet our strict criteria for visual comfort.

Philips Ultra-Efficient LED

[1] About the energy label and ecodesign: https://ec.europa.eu/info/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/energy-label-and-ecodesign/about_en

3D printing - El Dorado International Airport - Bogota - Colombia

Sustainability takes flight at one of the largest airports in South America

3D printed luminaires and LED retrofit help El Dorado airport become a benchmark for sustainability.

Customer challenge

Serving Colombia's capital, Bogotá, El Dorado International Airport is one of South America's main travel hubs. As part of its strategy to combat climate change, Colombia's International Airport Operator (OPAIN) wanted to find innovative lighting solutions that would reduce the airport's carbon footprint while improving the visual comfort of passengers and employees.

One initiative involved the retrofitting of interior luminaires to ensure lighting had a more positive impact on the environment. As terminals are 24/7 transit points, it was a priority to enhance visual comfort for passengers and workspace visibility for airport staff.

Solution

In a first phase, Signify provided El Dorado airport with nearly 9.000 3D-printed downlights. 3D-printed luminaires can be made to the customer's precise specifications, have a 75% lower carbon footprint than a conventionally-made metal fixture, and can be reused or recycled, supporting a circular economy.

OPAIN also retrofitted more than 14,000 luminaires to LEDs, helping to reduce the airport's electricity consumption by 51%. With 68% of the airport's emissions, excluding air traffic, coming from electricity consumption, this significantly reduces its carbon footprint.

Outdoors, Signify installed Digistreet luminaires, which have been integrated with Interact City, our connected lighting system.

Interact's lighting management dashboard enables the airport operators to adapt lighting levels quickly and easily. They can remotely monitor, manage and control each light point individually, from any location. This extra visibility means that preventative maintenance and resolution of faults can be dealt with quickly, reducing maintenance costs, improving the passenger experience, and minimizing disruption to operations.

"Our goal is to be a benchmark in energy efficiency and sustainable operations in Colombia and Latin America. For this reason, we're excited to have installed the latest innovation in lighting with 3D printed downlights and to be the regional pioneer when it comes to remote management of the lighting infrastructure."
Mauricio Vélez
OPAIN's Infrastructure Manager

3D-printed downlights

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

Extending play time beyond sunset at schools in India

Solar-powered flood lights illuminate playgrounds after dark and help girls feel safer playing sports.

Customer challenge
Sport and play are important for any child, improving physical health, self-esteem, and connection. But in rural India, a lack of adequate lighting in playgrounds often means that playtime ends when the sun goes down. Girls, in particular, are hesitant to practice sports after sunset as a lack of adequate lighting makes them feel unsafe.

Government schools in the northern Indian state of Uttar Pradesh wanted to improve playground lighting to extend sports time beyond daytime breaks, positively impacting the lives of local children.

Solution
Working with our NGO partner in India, the SRF Foundation, Signify India donated high mast poles with solar-powered flood lights to illuminate five badminton courts and playgrounds in rural government schools in Uttar Pradesh. So far, some 1,285 children have benefited from the project.

As a direct outcome, student's daily practice time has been extended and their sports skills have improved.

The number of players now qualifying for district and state-level badminton competitions has increased significantly.

Schools are reporting higher enrollment numbers and lower drop out numbers, which in part can be attributed to other children who are not enrolled in the school coming to play in the lit-up playground. Girls at the schools now feel safer and can participate and improve their skills under the new lights. Parents say they also feel more confident sending their children to sports practice and are more satisfied with their children's development.

Solar-powered flood lights
The solar-powered flood lights were specifically designed to support the needs of the government schools in India. The flood lights are connected to a battery, which can fully charge in seven hours of direct sunlight (depending on weather conditions) and which then provides three hours of lighting.

Additionally, the flood lights are not connected to the electricity grid, making the installation as easy as attaching the flood lights to the mast poles, digging a hole for each of the mast poles and installing the flood lights, before powering them up by connecting to the solar panels installed on the roof of the school. This provides the government schools with a very straightforward solution that harnesses the power of the sun to extend practice time beyond sunset, and one that can be replicated easily in and beyond India.

Solar-powered flood lights - Govt. Middle School - Rasoolpur Dasna - Dadri Block - UP - India

3.3 Our value created

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

Climate change
Resource scarcity
Demographic change
Urbanization

The SDGs

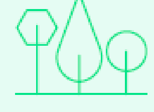
Stakeholders

5 Frontiers strategy: Passion for results, Customer first, Greater together, Game changer

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

Input

Financial

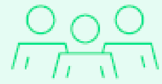


- EUR 284 million R&D investments with 92.9% sustainable innovation
- EUR 2,597 million total equity
- EUR 8,256 million total assets

Environmental

- 3,630 terajoules energy with 100% renewable electricity
- EUR 2,916 million materials
- 1,432 thousands of m³ water

Social



- 36,824 FTE in 74 countries and over 90 nationalities
- 51% of new hires are women
- EUR 3.33 million spent on training
- 92 supplier audits
- EUR 2.8 million to the Signify Foundation and CSR activities

Output

- EUR 6,860 million sales
- Comparable Sales Growth of 3.8%
- EUR 614 million free cash flow
- EUR 413 million paid in taxes and dividends
- 19,600 patents rights
- 44 customer NPS

- On track to double the pace of the Paris Agreement's 1.5°C scenario
- Carbon neutral operations
- 61%-64% Climate action revenues and 21%-25% Circular revenues
- 0 waste to landfill, 89% recycling rate
- Plastic-free consumer packaging in most of our markets

- 25%-27% Brighter lives revenues
- 25% Women in leadership and 18% of employees under 30
- 0.17 total recordable case rate
- 30 employee NPS
- 69% of active learner
- 98% supplier sustainability performance
- 1.2 million lives lit and 2,518 entrepreneurs trained

Impact

Brighter Lives

We created EUR 458 million in value for society through total shareholder returns, tax and interest payments.

We created EUR 1,113 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 0.5 million in costs to society through our own environmental footprint. At the same time, we helped creating EUR 55 million through increased biodiversity.

Philips GreenPower LED horticulture – Kalera – US

Lighting that feeds the farms of the future

Horticulture lighting from Signify helps Kalera grow fresh, local produce, all year round.

Customer challenge

Global population trends indicate that the world will feel an increasing pressure on vital resources like food and water. On top of that, consumers are increasingly concerned about the origins, farming methods, and nutritional profile of their food. To address these concerns, farmers must increasingly look to innovation and technology to change the way they plan and cultivate their crops. Establishing local growing facilities situated closer to urban areas to reduce the pressure on resources has been a long-time dream of many.

Innovative produce company Kalera is one of the first to address these issues head on, and on a large scale. Kalera's futuristic indoor vertical farms grow clean, fresh, high-quality leafy greens with reduced environmental impact. The farms are not dependent on the outdoor climate, can operate anywhere – reducing how far our food needs to travel before arriving on our plates, and limiting associated costs and emissions – and can function without the need for pesticides or fertilizers. To take farming indoors, Kalera sought a technology partner able to provide a wide range of solutions and enable them to scale in support of their ambitious growth plans.

Solution

In 2018, Kalera opened its first facility, the 3,000 square foot HyCube Growing Center, at the Orlando World Center Marriott, equipped with our Philips-branded horticultural lighting. Since then, Kalera has announced an additional seven locations in the US, from Houston, Texas to Honolulu, Hawaii, all powered by Philips GreenPower LED production modules. The new facilities are expected to collectively produce more than 70 million heads of lettuce per year.

Key to the success of the project is a deeply collaborative approach between Signify and Kalera team members. Precision control over the plants' lighting conditions creates the perfect growing conditions for each plant and has even been shown to optimize the nutritional profile of the resulting crop. Thanks to this innovative approach, Kalera's yields are 300 – 400 times that of traditional farms.

Philips GreenPower LEDs

For professional growers, Signify offers the Philips GreenPower LED range, which includes different toplighting and interlighting luminaires, flowering lamps, and production modules. The production module is an energy-efficient solution designed specifically for year-round indoor crop cultivation and is dimmable and color controllable when combined with Philips GrowWise Control Systems. Connecting the two technologies enables growers like Kalera to develop, test and apply their own custom light recipes. These custom light recipes can be designed to steer specific plant characteristics, such as compactness, color intensity, branch development, and/or flowering, and ultimately deliver a better and more predictable yield and improved crop quality.

Pure air peace of mind in Taiwan's restaurants

Customers and staff enjoy extra protection with Philips UV-C disinfection in dining areas and kitchens.

Customer challenge
When Taiwan's COVID-19 lockdowns lifted in August, restaurants re-opened their doors. But for popular restaurant group TTFB, operator of restaurant chains including Thai Town Cuisine, Very Thai Restaurant and Shann Rice Bar, it was certainly not a case of business as usual.

Customers were wary of removing their masks indoors and socializing in proximity to other diners. TTFB was eager to find a solution that would provide a high level of protection for its customers and staff and help people recapture the joy of evenings out.

Solution
In the first phase, Signify equipped 34 of TTFB's restaurants with UV-C disinfection technology. We installed two to three Philips UV-C disinfection upper air wall-mounted units in the dining areas of each restaurant, as well as three Philips UV-C disinfection battens with sensors in each of the kitchens. We also installed eight Philips UV-C disinfection upper air ceiling-mounted units in TTFB's head offices in New Taipei.

To ensure the restaurants could continue to serve their customers during regular hours, the installation work took place after the restaurants closed their doors, usually around midnight.

TTFB's management has been very satisfied with the result and in 2022 began extending the solution to another 46 restaurants, with a potential to equip all of its 132 restaurants, setting a new standard as one of Taiwan's leading restaurant chains.

"We have chosen Signify with its innovative UV-C disinfection solution to increase the safety for our customers and staff."
David Huang
Construction Director, TTFB Restaurant Group

Philips UV-C disinfection
UV-C disinfection lighting has been in use for more than 40 years. It can play a crucial role in limiting the spread of viruses and bacteria by disinfecting the air, surfaces and objects. Philips UV-C disinfection upper air luminaires distribute UV-C rays at device level and above. Their high position, in combination with the shielding and optics that are embedded in the luminaires' design, allow the units to quietly and discreetly disinfect the air while customers dine below. Philips UV-C disinfection battens provide homogenous disinfection over a specific area, making them ideal for inactivating viruses and germs on kitchen surfaces.

This combination of UV-C disinfection solutions offers restaurant owners peace of mind in a world that's adjusting to a new normal.

UV-C disinfection lighting - TTFB restaurant - New Taipei - Taiwan

3.4 Our contribution

Through our company's strategy and sustainability programs, we directly contribute to our six priority UN SDGs. This section shows how our 2021 activities supported the achievement of these UN SDGs. For UN SDGs target reporting, please refer to the Sustainability Supplements of this Annual Report.

Better World

SDG 7: Affordable and clean energy

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

2021 contribution:
- 61% - 64% Climate action revenues
- 100% renewable electricity in our operations

SDG 12: Responsible production and consumption

We aim to protect value and minimize waste by developing Circular lighting, sustainable packaging, and good waste management practices. We commit to eliminate plastic in our consumer packaging by the end of 2022.

2021 contribution:
- 21% - 25% Circular revenues
- Sending 0 waste to landfill, and 89% recycling rate
- EUR 0.2 million societal costs decreased through eliminating plastic in our consumer packaging *

SDG 13: Climate action

We drive climate action by being carbon neutral in our operations and reducing CO_2 emissions over our value chain. We have set approved science based targets (1.5°C scenario) and we will achieve the goals laid out in the Paris Agreement 1.5°C pathway for 2031 by the end of 2025.

2021 contribution:
- EUR 0.5 million costs to society from our own environmental footprint *
- On track to deliver against our goal of doubling the pace of the Paris Agreement's 1.5°C scenario
- EUR 55 million value created to society through the conservation of biodiversity *

Brighter Lives

SDG3: Health and well-being

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

2021 contribution:
- 25% - 27% Brighter lives revenues
- Employee NPS of 30
- More than 100,000 LED lamps and 500 UV-C disinfection products donated to health centers

SDG 8: Decent work and economic growth

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

2021 contribution:
- 0.17 TRC rate and EUR 1.7 million costs to society from injuries & illnesses at work *
- 98% supplier sustainability performance
- EUR 458 million value to society through total shareholder returns, tax, and interest payments and EUR 1.1 million through employee's salaries & wages and learning & development *

SDG 11: Sustainable cities and communities

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

2021 contribution:
- 1.2 million lives lit, adding up to 7.2 million lives lit since 2017
- 25% - 27% Brighter lives revenues
- 5 humanitarian projects executed

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

Philips SportStar and ArenaVision LEDs + Interact Sports - Genting Snow Park - China

Setting the gold standard in sports lighting with Philips LEDs and Interact Sports

Signify combined Philips-branded LED sports lighting with Interact Sports to illuminate the world's largest winter sports event.

Customer challenge

In 2015, China won the bid to host the world's largest winter sports event in the winter of 2022. To successfully host the event, the nation needed to upgrade existing venues and even build some new arenas. This also involved installing high-quality lighting to ensure athletes would have the best visibility as they strive for eternal honor, while spectators and TV viewers wouldn't miss any of the action. Each venue posed its own challenges, including steep rocky hills, long-distance signal transmission, and ice surfaces that reflect lights. Additionally, operators wanted the ability and flexibility to manage the lighting in different areas from a single dashboard.

Solution

Signify equipped major outdoor and indoor venues with LEDs from the Philips SportStar and ArenaVision series and controlled by Interact Sports. This includes the venues for biathlon, ski jumping, freestyle skiing and snowboarding, speed skating, short-track skating, and ice hockey. At Genting Snow Park, where freestyle skiing and snowboarding will take place, we ensured we would meet the high-speed dynamic lighting control needs at night to perfectly capture all the moves of the athletes. At Capital Indoor Stadium, the lighting fixtures have the same level of high-speed refresh rate as the stage lighting, making the ice look at its best and enhancing the viewing experience. At Wukesong Sports Centre, China's first that can host basketball and ice hockey events, our lights meet the latest broadcasting standards for the best TV viewing experience. We also equipped the event's main arena with our Interact Sports connected lighting system, ensuring the best lighting effects, and optimizing fan, broadcasting and viewer experience during the diverse events hosted there. Interact Sport's unique scene-management capabilities also allow technicians to create an exciting viewing experience for spectators, extending their excitement before, during and after events.

Philips SportStar and ArenaVision

LED floodlights from the Philips SportStar and ArenaVision series are tailor-made for the specific requirements of sports venues. They provide high power and high color rendering features, which, in combination with a variety of light distribution solutions, can achieve the highest level of color reproduction and flicker control. This helps athletes to better engage in their sports and enhances their performance. It also meets the stringent requirements of international television broadcasters, supporting flicker-free super slow-motion replay, and allowing TV viewers around the globe to have an immersive athletic viewing experience.

Preserving the Town of Pepperell's energy and night sky

Connected LEDs with a low color temperature improve the Dark Sky-friendly community's energy consumption.

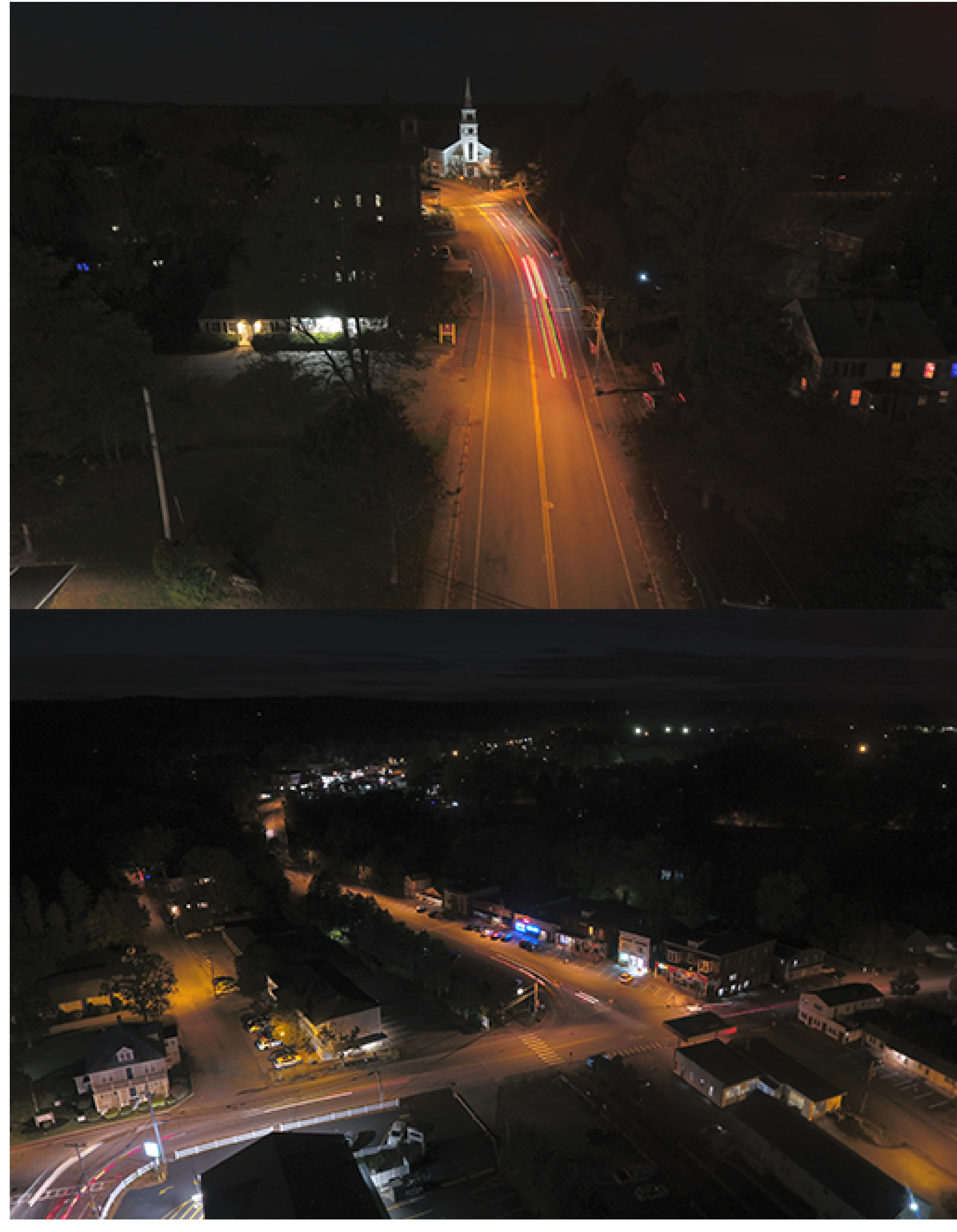
Customer challenge
A growing number of cities and communities around the globe are looking for ways to reduce their impact on the environment through lighting. Like many towns, Pepperell, Massachusetts, was still using high-pressure sodium lighting throughout the town. The Town of Pepperell began looking for a solution that could help reduce its energy consumption, while keeping its citizens safe after sunset. While most people are familiar with air and water pollution, light can also be a pollutant. As a Dark Sky-friendly community, Pepperell was looking for lighting that minimizes light pollution, reducing effects known as 'glare', 'skyglow' and 'trespass'. Typical LED fixtures provide cooler color temperatures (CCTs), which can contribute more to skyglow compared to warmer CCTs. As a result, warmer CCTs are necessary for Dark Sky compliance.

Solution
Cooper Lighting provided a solution that met all of Pepperell's desires, replacing all of the town's 409 high-pressure sodium light fixtures with LED light fixtures from the Streetworks Archeon Series. These Archeon LED luminaires reduce the town's total system wattage by over 80%; with greater than USD 80,000 in estimated maintenance savings and more than USD 800,000 in total savings estimated over a 10-year period.[1] And because the LED light fixtures of the Streetworks Archeon Series can deliver a lower color temperature than other LED light fixtures, they reduce glare, skyglow and light trespass. This makes them perfect for the City of Pepperell to achieve its Dark Sky-friendly goals.

"Pepperell is strongly committed to climate change issues and considered converting to LEDs as an opportunity to reduce energy consumption. We have also declared ourselves a Dark Sky-friendly community and strive to eliminate unneeded nighttime lighting. This conversion reduces nighttime lighting and glare without compromising the public safety benefits of street lighting."
Andrew MacLean
Town Administrator, Town of Pepperell

Streetworks Archeon Series
The Streetworks Archeon Series delivers all the performance benefits of the latest LED platforms and technologies with a modern yet familiar cobrahead form factor. With a U0 uplight rating and a CCT offering of 2200K – 6000K, the Archeon series is designed to meet any Dark Sky specification, positively impacting both humans and wildlife.

[1] Assumptions: 10-hour daily run rate, 0.2223 KWH average rate



Cooper Lighting Streetworks Archeon Series - Pepperell, Massachusetts - US

4 Corporate performance

Key figures in millions of EUR unless otherwise stated

	2020	2021
Sales	6,502	6,860
Comparable sales growth [1]	(12.7)%	3.8%
Gross margin	2,499	2,671
as a % of sales	38.4%	38.9%
Income from operations	416	514
Financial income and expenses	(54)	(24)
Income tax expense	(27)	(83)
Net income	335	407
Adjusted gross margin [1]	2,556	2,702
Adjusted indirect costs [1]	(1,982)	(2,032)
Adjusted EBITA [1]	695	795
as a % of sales	10.7%	11.6%
Restructuring, acquisition and incidental items [1]	(159)	(159)
EBITA [1]	536	636
Basic earnings per share in EUR	2.58	3.18
Dividend per share in EUR [2]	1.40	1.45
Shareholders' equity	2,196	2,459
Net debt [1]	1,275	1,156
Working capital [1]	313	250
Net cash provided by operating activities	891	704
Free cash flow [1]	817	614
as a % of sales	12.6%	8.9%

[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] 2021 Dividend subject to approval by the 2022 Annual General Meeting of Shareholders.

4.1 Financial performance

4.1.1 Company performance

During 2021, the COVID-19 pandemic continued to have an impact on the macroeconomic environment and society. In the first half of the year, vaccination rollouts led to an easing of lockdowns in many parts of the world, though throughout the second half of the year restrictions were reinstated as new variants caused a resurgence of the virus in many regions.

In addition, component and container shortages, together with other logistics challenges, impacted Signify's ability to deliver. As underlying demand remained healthy, this resulted in part of the orders being delayed. To cope with these supply challenges, we utilized the spot market for both components and containers, we redesigned our products to include more readily available components, and we qualified new component suppliers.

An additional consequence of the global supply disruption was the resurgence of significant inflation. In light of these rising input costs, we moved to pass on cost inflation to our customers, thereby limiting the impact on the bottom line.

In this context, we reported sales of EUR 6,860 million, delivered a comparable sales growth of 3.8%, improved our Adjusted EBITA margin by 90 basis points to 11.6%, increased net income from EUR 335 million in 2020 to EUR 407 million, and delivered net cash from operating activities of EUR 704 million.

Despite the challenging macro environment, we reported a sales increase of 5.5% on a nominal basis. Adjusted for (2.0)% currency effects, and 3.6% consolidation and other changes, comparable sales increased by 3.8%. The growth was mainly driven by strong consumer and professional demand for connected products and growth platforms. LED-based sales represented 83% of total sales (2020: 80%).

Our gross margin was EUR 2,671 million in 2021 compared to EUR 2,499 million in 2020. The adjusted gross margin increased to EUR 2,702 million from EUR 2,556 million in 2020. As a percentage of sales, the adjusted gross margin increased by 10 basis points to 39.4%, which includes a negative currency effect of 20 basis points. Price increases, positive sales mix and the carryover of bill of material savings in the first half of the year more than compensated for higher input and logistics costs.

Indirect costs increased to EUR 2,168 million, an increase of EUR 80 million over 2020. Adjusted indirect costs increased by EUR 50 million to EUR 2,032. As a percentage of sales, adjusted indirect costs decreased by 90 basis points to 29.6%, driven by operating leverage and structural cost savings.

R&D expenses were EUR 286 million, compared to EUR 307 million in 2020. Adjusted for restructuring and acquisition related charges, R&D expenses declined by EUR 3 million to EUR 284 million. As a percentage of sales, adjusted R&D expenses decreased from 4.4% in 2020 to 4.1% in 2021.

EBITA and Adjusted EBITA both increased by EUR 100 million to EUR 636 million and EUR 795 million, respectively. The Adjusted EBITA margin improved by 90 basis points to 11.6%, including a negative currency effect of 20 basis points. This improvement was the combined result of the higher gross margin and operating leverage.

Income from operations increased from EUR 416 million in 2020 to EUR 514 million in 2021. This included EUR 86 million of restructuring expenses (mostly related to the restructuring of the central organization), EUR 50 million of acquisition-related charges and EUR 22 million of incidental items. These are non-recurring items in nature related to, among other items, separation costs, transformation initiatives, real-estate gains, environmental provisions for inactive sites and the effect of changes in discount rates on long-term provisions.

Net income was EUR 407 million compared to EUR 335 million in 2020, as higher income from operations and lower net financial expenses were only partly offset by a higher income tax expense (2020 included higher non-cash tax benefits from the revaluation of deferred tax assets).

Compared to 2020, working capital decreased by EUR 63 million to EUR 250 million, driven by higher payables and lower other working capital items, which more than offset higher inventories, and receivables. The high level of inventories was the result of longer order lead times and increased safety stock levels. As a percentage of sales, working capital improved by 120 basis points to 3.6%. When including pro-forma last twelve-month sales for Cooper Lighting, working capital as a percentage of sales improved by 110 basis points.

Net cash from operating activities decreased by EUR 187 million to EUR 704 million, as 2021 working capital was impacted by continued supply chain constraints, while 2020 benefited from both a release of working capital due to sales decline and the implementation of structural working capital improvements. Net capital expenditures increased to EUR 91 million, resulting in a free cash flow of EUR 614 million or 8.9% of sales.

Shareholders' equity increased to EUR 2,459 million, reflecting the net income and currency translation results, offset by the dividend payment and share repurchases.

Net debt was EUR 1,156 million at year-end 2021, a reduction of EUR 119 million compared to year-end 2020. This reduction was mainly driven by a solid free cash flow generation, partly offset by dividend payments. Gross debt decreased, primarily driven by the repayment of EUR 350 million, as committed.

As at December 31, 2021, Signify had a post-employment liability of EUR 363 million, compared to EUR 390 million at December 31, 2020. The decrease is mostly driven by the payment of benefits and the yearly actuarial remeasurement.

Signify employed 36,824 full-time equivalents (FTEs) at year-end 2021, compared with 37,926 at year-end 2020.

4.1.2 Performance by Division

Performance Digital Solutions

About Digital Solutions

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

Acquisitions

In 2021, Signify completed the acquisition of Telensa Holdings Limited (Telensa), an expert in wireless monitoring and control systems for smart cities. The acquisition adds a narrow-band and TALQ-compliant solution to its feature-rich, open and secured systems.

In December, Signify also announced that it had signed a definitive agreement to buy Fluence, a leader in horticultural lighting in North America, from ams OSRAM. The acquisition is expected to close in the first half of 2022, subject to regulatory approvals and other conditions.

Key figures Digital Solutions
in millions of EUR unless otherwise stated

	2020	2021
Sales	3,252	3,524
Nominal sales growth	22.8%	8.3%
Comparable sales growth [1]	(14.4)%	3.4%
Income from operations (or EBIT)	119	205
EBITA [1]	230	318
Adjusted EBITA [1]	330	397
as a % of sales	10.2%	11.3%
Free cash flow [1, 2]	436	364
Number of employees (in FTEs)	14,657	15,006

[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

Digital Solutions focuses on strengthening its global professional lighting leadership position by further innovating in LED products, winning in connected lighting and unlocking the potential in businesses such as agriculture, solar, disinfection lighting and 3D printing. At the same time, Digital Solutions leverages its scale to reduce the cost of production. The successful integration of Cooper Lighting remains a strategic priority, for which the integration and synergy delivery are ahead of plan.

2021 Business highlights

- **Improved occupant experience at Honeywell's Charlotte HQ:** integrating our lighting systems & software with Honeywell's Healthy Buildings and Honeywell Employee App. Sensors deliver

insights on people estimates, temperature, humidity and noise. The offer improves employee well-being and productivity in the office.

- **Provided safe & secure connectivity to guests of World Forum The Hague**: world-first installation of Signify's Trulifi in a congress center. Guests can enjoy the benefits of safe, secure, reliable and high-speed connectivity via light rather than radio waves.
- **Helped growers in the Nordics to boost crop yields with horti LEDs**: Philips GreenPower LED & GrowWise control systems provide growers with control over the light spectrum and light levels, which helps to steer crop quality and boost yields, and also helps to predict growth levels and optimize production to match seasonal demand.
- **Expanded UV-C offering for professionals with new devices**: introducing different device sizes to cater to usage in different spaces and for multiple customer needs, including the Philips UV-C disinfection floor standing air unit, Philips UV-C disinfection Active Air, the second generation of the Philips air disinfection unit, and UV-C solutions for HVAC.
- **Provided restaurants with an additional layer of protection with Philips UV-C:** equipping 36 restaurants under the TTFB chain in Taiwan with Philips UV-C disinfection devices, providing diners and staff with an additional layer of protection against viruses and germs. Disinfection devices in the dining area disinfect the air during opening hours, while UV-C disinfection battens disinfect surfaces in the kitchen areas in the afternoon and early morning.

2021 Financial performance

Sales were EUR 3,524 million, a nominal increase of 8.3%, partly impacted by the fact that 2020 only included 10 months of Cooper Lighting sales. Comparable sales growth was up by 3.4%, as the professional segment improved across most markets.

Income from operations was EUR 205 million. Adjusted EBITA amounted to EUR 397 million, adjusting for restructuring charges of EUR 19 million, acquisition-related charges of EUR 49 million, mainly related to Cooper Lighting and Telensa, and incidental items of EUR 11 million. The Adjusted EBITA margin improved by 110 basis points to 11.3%, mainly from operating leverage and adjusted indirect cost savings. Free cash flow amounted to EUR 364 million.

Market developments

Signify is the world leader in the professional lighting market, a large, growing and resilient market. Signify is well-positioned to benefit from powerful global trends, such as the shift to connected lighting, growing demand for food security, and climate action.

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

In order to further tap into this market development, in 2021 we expanded our portfolio in the 'Road & Street' segment through the acquisition of Telensa. Signify connects all luminaires within its portfolio and those of third parties via its two market leading Internet of Things (IoT) and connected systems brands: Interact and Telensa. Energy-efficient LED street lighting is further enhanced with connected lighting for accurate on, off and dimming of light levels to reduce energy costs, while keeping lights on when and where needed, ensuring safety for citizens. In addition, connected lighting enables remote monitoring and fault detection, optimizing operations and reducing the need for physical scouting across large geographies. The same infrastructure is able to support deep data insights into urban, traffic and parking data. Municipalities improve the planning of their cities, evaluate the impact and increase comfort and service levels for drivers, citizens and visitors. Including Telensa, Signify has connected over 5.2 million light points with 2,700 projects in almost 60 countries.

In 2021, Signify's installed base of connected light points increased by 19 million to a total of 96 million across all segments, both professional and consumer. This increase includes Telensa's connected light points. Only 5% of the installed lighting base is connected, showing that the connected lighting market continues to offer significant growth potential for Signify.

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

2022 and beyond

Digital Solutions executes its strategy built around growth for sustainability through attractive growth platforms such as connected lighting, agriculture lighting, solar lighting, 3D printed luminaires, disinfection lighting and human-centric lighting. It maintains a strong financial profile with unmatched global scale and is well-positioned to capture growth from the upcoming stimulus programs in Europe and the US.

Performance Digital Products

About Digital Products

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

Based on research performed internally, the company believes that Digital Products held the number one position in sales in the global LED lamps and electronics market in 2021.

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, whether it is ambiance creation or entertainment. Users can control lights wirelessly through Philips Hue apps, third-party apps and smart devices, with their voice or with remote control switches. The Philips Hue offering is continuously expanding. Recent examples of new innovations include the launch of the Philips Hue Play gradient light tube, the Philips Hue gradient Signe floor and table lamps, the Philips Hue ambiance lightstrip and the new immersive music experience via a deep integration of lighting and music with Spotify and Philips Hue.

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

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

Key figures Digital Products
in millions of EUR unless otherwise stated

	2020	2021
Sales	2,288	2,452
Nominal sales growth	(5.1%)	7.2%
Comparable sales growth [1]	(8.3%)	8.8%
Income from operations (or EBIT)	269	316
EBITA [1]	277	323
Adjusted EBITA [1]	295	339
as a % of sales	12.9%	13.8%
Free cash flow [1, 2]	406	383
Number of employees (in FTEs)	14,628	14,643

[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

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

2021 Business highlights

- **Expanded the Philips Hue range and launched new future-ready Philips Hue app 4.0**: including new outdoor lights to further personalize gardens and porches, a new wall switch module that makes existing light switches smart, and a redesigned Philips Hue dimmer switch. The new Philips Hue app 4.0 improves the app's performance, delivering an intuitive and enhanced user experience with easier automations, a new Philips Hue scene gallery and more.
- **Launched the Philips UV-C disinfection air cleaner**: the system uses UV-C light to inactivate airborne microorganisms easily and effectively, making air disinfection easier than ever before and enabling people to remain in the same room.
- **Launched the Philips Ultra Efficient LED**: the Philips Ultra Efficient LED is our most energy-efficient Philips LED bulb and reduces electricity consumption by 60% versus standard Philips LEDs. It is the first LED that meets the highest level in the new European labelling and design standard.
- **Launched Philips TrueForce LED highbay**: the first universal HID replacement product in the market. It provides installers with a fast, easy and hassle-free installation and offers energy savings of up to 65%.

2021 Financial performance

Sales were EUR 2,452 million, a nominal sales increase of 7.2%. Comparable sales increased by 8.8%, driven by strong demand for connected home lighting and improved professional sales, despite supply chain constraints and component shortages.

Income from operations increased by EUR 47 million to EUR 316 million. Adjusted EBITA increased by 14.9% to EUR 339 million. The Adjusted EBITA margin improved by 90 basis points to 13.8%, as the division managed to offset higher cost of goods sold and continued investments in future growth with a positive impact from operating leverage, sales mix and price increases. Free cash flow decreased by EUR 23 million to EUR 383 million.

Market developments

There is a transition from traditional LED lamps to increased quality of light and more sustainable LED lamps, such as the Philips Ultra Efficient LED bulb, functional LED luminaires and connected solutions, as anticipated in the company’s strategy. This trend is driven by an increasingly compelling proposition of both integrated LED luminaires and connected solutions in particular, while the replacement cycle of lamp sockets is cut due to the longer lifetime of LEDs. In addition, consumers and professional customers pay attention to the energy efficiency of the lighting products in their purchase decision. The company expects these trends to continue for the foreseeable future. This provides a solid growth path with the ambition to drive market share gains, raising the energy efficiency bar through innovation and leadership in functional luminaires and connected lighting. While Signify expects that the LED lamps market will decline in the next few years, the company is well-positioned to continue to grow market share in this market, building on its strong position in lighting distribution. The LED electronics market is expected to grow, particularly driven by the shift to connected lighting and the LEDification of (industrial) specialty segments. The consumer connected system markets are expected to continue to grow on the back of the increasing global penetration of the smart home.

2022 and beyond

In 2022, Digital Products aims to drive market share growth in LED Lamps through differentiation with a multi-brand offer of A-brands, B-brands and Private Label sales. The division also plans to grow sales of LED Luminaires by innovating and expanding its product portfolio and by leveraging its LED R&D and distribution strength. It aims to further accelerate growth in its Consumer Connected business with a two-system offering of Philips Hue and WiZ and by continuing to innovate in relevant consumer benefits, such as ambiance, well-being and security. Digital Products will drive growth in LED electronics through the transition to smart lighting, leveraging its innovation leadership in connected components and through dedicated offers for specialty segments. At the same time, the division aims to improve total profitability and its cash profile by continuing to increase insourcing to Klite, the China-based manufacturing company in which Signify acquired a 51% stake in 2019.

Performance Conventional Products

About Conventional Products

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

Key figures Conventional Products
in millions of EUR unless otherwise stated

	2020	2021
Sales	943	861
Nominal sales growth	(18.7)%	(8.7)%
Comparable sales growth [1]	(16.5)%	(6.9)%
Income from operations (or EBIT)	149	158
EBITA [1]	149	158
Adjusted EBITA [1]	170	161
as a % of sales	18.0%	18.7%
Free cash flow [1, 2]	188	136
Number of employees (in FTEs)	8,051	6,837

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

Conventional Products enables Signify to reach customers thanks to its long and strong commercial synergies and brand coverage. While the overall conventional market continues to decline, Conventional Products' focus is on winning market share in key segments and markets to remain market leader. This position supports the company's drive to lead the transition to connected LED products. The division continues to proactively manage its manufacturing footprint and reduce operational costs to optimize free cash flow.

2021 Business highlights

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

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

The division is strengthening its leadership position by continuously gaining market share, increasing customer and employee Net Promoter Scores, and delivering cash.

As part of its strategy, it is proactively managing its manufacturing footprint. Signify operated nine manufacturing plants for conventional lamps at the end of 2021 compared with 11 at the end of 2020.

2021 Financial performance

Sales were EUR 861 million, a nominal decline of 8.7% versus 2020. On a comparable basis, sales declined by 6.9%. A lower rate of decline compared with 2020, mainly as a result of the market recovery and traction across most of its segments.

Income from operations increased to EUR 158 million, helped by lower restructuring expenses. Adjusted EBITA declined by 5.0% to EUR 161 million while Adjusted EBITA margin improved by 70 basis points to 18.7%, mostly driven by indirect cost savings. The Division generated a robust free cash flow of EUR 136 million.

Market developments

Signify estimates that the conventional lighting market declined at a faster pace than its Conventional Products business in 2021 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 and regulatory changes.

2022 and beyond

In 2022, Conventional Products will continue to execute its strategy and optimize free cash flow by leveraging its cost advantage, scale, global footprint and lean manufacturing capabilities, while responding to customer demand for conventional products.

Performance Other

'Other' represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation, and to group-enabling functions. 'Other' reported income from operations of EUR (165) million and EBITA of EUR (164) million. This includes restructuring costs of EUR 58 million, which were mostly related to the restructuring of the central organization and a negative impact from incidental items of EUR 4 million. Adjusted EBITA was EUR (102) million in 2021, versus EUR (100) million in 2020. The number of FTEs was 339 at the end of 2021, versus 589 at the end of 2020, mainly as a result of the restructuring of the central organization.

4.1.3 Performance by geographic cluster

In 2021, many markets rebounded as demand for connected home lighting remained strong and the professional segment improved. At the same time, supply chain constraints and component shortages impacted Signify's ability to meet demand.

In Europe, sales increased by 3.1% to EUR 2,130 million, a comparable sales growth of 3.4%, as most markets returned to growth.

In Americas, sales were EUR 2,581 million, a nominal sales growth of 5.9%. The nominal sales growth mainly contains a positive impact from Cooper Lighting, as 2020 included only 10 months of sales. Adjusting for these effects, together with a negative currency translation effect, comparable sales growth was 1.4%, driven by most markets and Cooper Lighting. In the Rest of the World, sales increased by 6.6% to EUR 1,606 million, an increase of 7.9% on a comparable basis, particularly driven by a strong performance in China, India and Australia.

Sales by geography in millions of EUR unless otherwise stated

	2020 [2]	2021 [2]	Change	CSG
Europe	2,066	2,130	3.1%	3.4%
Americas [1]	2,437	2,581	5.9%	1.4%
Rest of the world	1,507	1,606	6.6%	7.9%
Global businesses [1, 3]	492	543	10.3%	6.3%
Total	**6,502**	**6,860**	**5.5%**	**3.8%**

1 Americas includes Cooper Lighting From March 1, 2020, and Global businesses includes Klite.
2 Effective Q1 2021, WiZ Connected is included in Market Groups Europe, Americas and Rest of the world (was previously part of Global businesses). Prior year amounts were adjusted to conform to current year presentation.
3 Sales growth of Global businesses includes the impact of the acquisition of Telensa in July 2021.

4.2 Sustainability performance

Brighter Lives performance

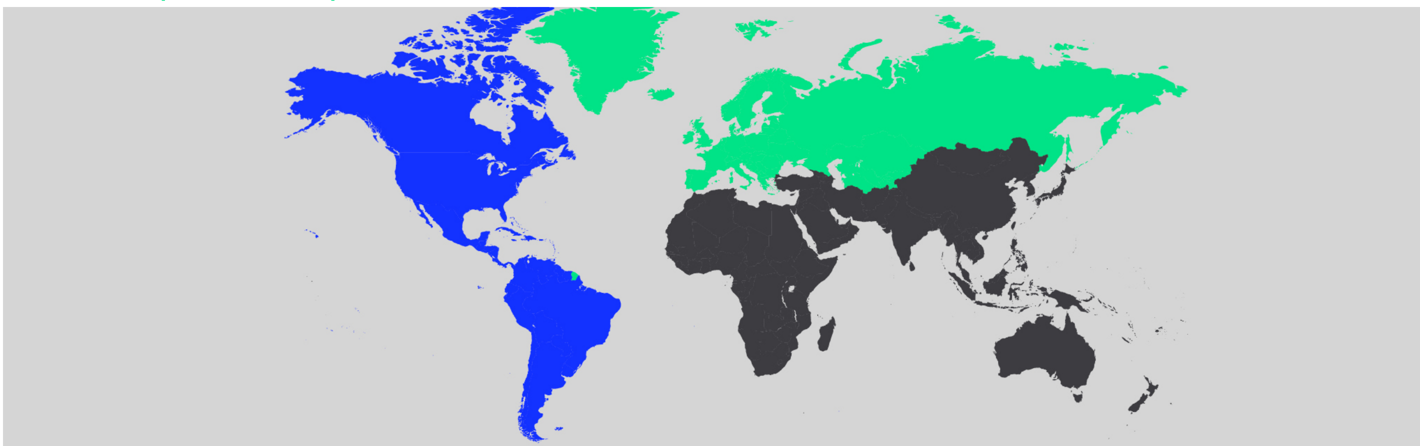
In 2021, our workforce decreased slightly compared to 2020 to 36,824 FTEs (2020: 37,926 FTEs), with 25% of leadership roles held by women. Our employee Net Promoter Score (NPS) improved, with a yearly average score of 30 (2020: 25). Meanwhile, between 25% and 27% of our revenues came from products, systems and services contributing to Food availability, Safety & security or Health & well-being. Our safety performance indicator (TRC rate) was 0.17 per 100 FTEs (0.22 in 2020). We achieved a supplier performance rate of 98% (2020: 99%), and since 2017 we have lit the lives of 7.2 million people through the Signify Foundation.

Better World performance

We are on track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5° scenario. In 2021, our Climate action revenues ranged from 61% to 64%. In line with our ambition to contribute to a more circular economy, 21% to 25% of our revenues came from our circular portfolio. At the same time, we remained carbon neutral in our operations, sourced 100% renewable electricity and sent zero waste to landfill, while integrating our acquisitions of Cooper Lighting and Klite in these commitments.

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

Sustainable performance per market



	FTEs		Manufacturing sites		% Women in leadership [1]		Operational CO_2 (kt)		Safety TRC rate	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Europe	**11,418**	**11,139**	**14**	**15**	**22%**	**23%**	**101**	**112**	**0.23**	**0.15**
Benelux	3,163	2,810	4	4	22%	23%	12	12	0.31	0.25
Eastern Europe	5,975	6,232	7	7	50%	–	70	79	0.11	0.09
DACH (Germany, Austria, and Switzerland)	388	355	–	–	20%	100%	3	3	0	0
France	556	353	–	–	–	–	6	6	2.76	0
Iberia	622	641	2	2	–	–	5	6	0.47	0.47
Italy, Israel, and Greece	146	150	–	–	–	–	1	2	0	0
Nordics	241	245	1	1	50%	–	2	2	0	0
UK & Ireland	327	352	–	1	–	n.a.	2	2	0	0
Americas	**10,220**	**10,456**	**14**	**18**	**20%**	**24%**	**69**	**74**	**0.27**	**0.27**
Canada	749	695	2	2	–	–	5	6	0.16	0
Latin America	5,915	6,911	5	9	–	–	10	16	0.17	0.15
United States of America	3,555	2,849	7	7	25%	27%	54	52	0.62	0.6
Rest of the world	**16,288**	**15,229**	**11**	**15**	**30%**	**32%**	**90**	**104**	**0.17**	**0.11**
ASEAN [2]	357	326	–	–	17%	20%	4	3	0	0
Indonesia	166	164	–	–	–	–	1	2	n.a.	0
Greater China	11,766	10,823	6	10	55%	50%	34	37	0.16	0.11
India	2,983	2,929	1	1	–	–	39	48	0.8	0.04
Far East	75	80	–	–	n.a.	n.a.	1	2	0	0
Middle East, Turkey, Africa & Pakistan [2]	784	753	3	3	–	–	7	8	0.3	0.3
Pacific	158	154	1	1	n.a.	n.a.	4	4	0	0

Except for FTE, 2020 data excludes Cooper Lighting and Klite.

[1] 2021 Women in leadership data excludes Klite.

[2] In 2020, Pakistan was incorrectly reported under ASEAN. The number has been revised in this table.

4.3 Proposed distribution to shareholders

Pursuant to Article 10 of the Articles of Association of Signify N.V., a dividend will first be declared on preference shares out of net income. The remainder of the net income, after reservations made with the approval of the Supervisory Board, shall be available for distribution to holders of ordinary shares subject to shareholder approval after year-end. As of December 31, 2021, the issued share capital consists only of ordinary shares; no preference shares have been issued. Under Article 10 of the Articles of Association of Signify N.V., the Board of Management can determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board.

Signify proposes to declare a cash dividend of EUR 1.45 per share for 2021. The dividend proposal will be subject to approval at the Annual General Meeting of Shareholders (AGM) to be held on May 17, 2022.

The balance sheet presented in this report, as part of the company financial statements for the period ended December 31, 2021, is before appropriation of the result for the financial year 2021.

4.4 Outlook

As Signify continues to proactively navigate through the gradually improving component and logistics environment, it provides the following outlook for 2022:

- Comparable sales growth in the range of 3-6%
- Continued Adjusted EBITA margin improvement of up to 50 basis points
- Free cash flow in excess of 8% of sales

4.5 Competitive landscape

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

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

5 Three-year overview

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

	2019	2020	2021
Income statement			
Sales	6,247	6,502	6,860
Comparable sales growth [1]	(4.6)%	(12.7)%	3.8%
Nominal sales growth	(1.8)%	4.1%	5.5%
Sales of LED-based products (as % of sales)	78%	80%	83%
Gross margin	2,307	2,499	2,671
as a % of sales	36.9%	38.4%	38.9%
Income from operations (or EBIT)	401	416	514
Net income (loss)	267	335	407
Adjusted EBITA [1]	648	695	795
as a % of sales	10.4%	10.7%	11.6%
EBITA [1]	500	536	636
Net income (loss) attributable to shareholders	262	325	397
Earnings per share in EUR	2.08	2.58	3.18
Dividend per share in EUR [2]	1.35	1.40	1.45
Balance sheet			
Total assets	6,715	7,710	8,256
Shareholders' equity	2,181	2,196	2,459
Net debt [1]	618	1,275	1,156
Working capital [1]	388	313	250
Investments and cash flow			
Cash flow from operating activities	599	891	704
Net capital expenditure	(70)	(75)	(91)
Free cash flow [1]	529	817	614

[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] 2021 Dividend subject to approval by the 2022 Annual General Meeting of Shareholders.

Three-year sustainability summary

	2019	2020	2021
Sustainable innovation, as a % of adjusted research & development spend	84%	85%	93%
Brighter lives revenues, as a % of total sales	16%	*	25% - 27% **
Women in leadership, as a % of total leadership roles	17%	23%	25%
Employee Net Promoter Score	18	25	30
Total recordable cases, per 100 FTEs	0.32	0.22	0.17
Lost workday injuries, per 100 FTEs	0.19	0.17	0.12
Fatalities	1	0	0
Initial and continual supplier conformance audits, number of audits	73	73	92
Suppliers audits, performance rate, in %	99%	99%	98%
Lives lit, cumulative since 2017 (in million)	3.8	6	7.2
Cumulative carbon reduction over value chain, in million tonnes CO_2	0	*	On track **
Climate action revenues, as a % of total sales	58%	*	61% - 64% **
Operational gross carbon footprint, in kilotonnes CO_2-equivalent	363	260	290
Carbon neutral, as % of total operations	83%	100%	100%
Operational CO_2 intensity, in tonnes CO_2 per million euro sales per year	58	40	42
Operational energy consumption, in terajoules	3,885	3,728	3,630
Operational energy intensity, in terajoules per million euro sales	0.62	0.72	0.53
Renewable electricity, as a % of total electricity usage	94%	100%	100%
Circular revenues, as a % of total sales	16%	*	21% - 25% **
Total waste to landfill, in scope of commitment ***	2%	<1%	<1%
ISO 14001 certification, as a % of all reporting organizations	77%	82%	83%
ISO 45001 certification, as a % of all reporting organizations	64%	72%	60%

* New Brighter Lives, Better World 2025 sustainability KPIs reported for the first time in 2021.

** 2021 results/assessments are based on current level of availability and accuracy of data.

*** Zero waste to landfill definition was updated in 2021; refer to chapter 19, Definitions and abbreviations, of this Annual Report.

Governance

6 Board of Management

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

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

Corporate governance

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

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

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

Javier van Engelen
Born 1968,
Belgian/Portuguese
Chief Financial Officer
Member of the Board of Management
since October 2020

7 Supervisory Board

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

The Rules of Procedure of the Supervisory Board are published on the company's website. For details on the activities of the Supervisory Board in 2021 see chapter 8, Supervisory Board report, and chapter 9, Remuneration report, of this Annual Report.

Arthur van der Poel
Born 1948,
Dutch

Chair

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

Former member of the Board of Management of Koninklijke Philips N.V.

Gerard van de Aast
Born 1957,
Dutch

Vice-Chair

Committee(s) [A,B]
Chair of the Remuneration Committee
Member of the Supervisory Board since 2017; second term expires in 2025

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

Eelco Blok
Born 1957,
Dutch

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

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

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

Supervisory Board

Pamela Knapp
Born 1958,
German

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

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

Rita Lane
Born 1962,
American

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

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

Frank Lubnau
Born 1969,
German

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

Former Chief Digital Officer for Industrial Technology at Robert Bosch and Chief Technical Officer at Siemens' Customer Services Division. Currently Head of Intelligent Platforms at Capgemini Germany.

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

8 Supervisory Board report

Letter from the Chair

I am pleased to present our Supervisory Board report for 2021.

The year 2021 continued to be impacted by the COVID-19 pandemic and subsequently by supply chain disruptions and component shortages. As a Supervisory Board, we closely followed these developments. We appreciate how the company's leadership addressed the challenges posed by the current external environment. In financial terms, even in this challenging environment the company was able to achieve a solid financial performance in 2021. At the same time, the company progressed on its ambitious sustainability commitments under its second five-year sustainability program, Brighter Lives, Better World 2025.

As a Supervisory Board, we are actively involved in the strategic direction of the company which is centered around 5 Frontiers to build a customer-centric organization, deliver differentiating lighting offers, drive growth for sustainability, digitalize and transform for the future, and be a great place to work. We are satisfied with the progress made in 2021 towards delivering on the company's strategy.

Arthur van der Poel
Chair of the Supervisory Board

8.1 Introduction

This report provides information on how the Supervisory Board and its committees fulfilled their duties in 2021.

In 2021, the composition of our Supervisory Board remained unchanged. In May 2021, the Annual General Meeting of Shareholders re-appointed Gerard van de Aast. The Supervisory Board currently consists of six independent members.

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

8.2 Key discussion topics and meetings in 2021

Meetings and information

The Supervisory Board held eight meetings in 2021 and had additional calls on ad hoc topics, such as on the announced intended acquisition of the US-based company Fluence. While we were able to organize in-person meetings three times, in view of COVID-19, most meetings were held via video conference. We learned that working and meeting remotely can be done well, even for

longer periods of time. At the same time, we realized the benefits of meeting in person, so we hope that this will again be possible more often in 2022.

The Supervisory Board and committee meetings were well attended, with an attendance rate of 100% of each Supervisory Board member, except for one committee meeting by one of its members.

Each of the Supervisory Board committees regularly convened and reported back on their activities to the full Supervisory Board. In addition, the Chair of the Supervisory Board and the CEO are in regular contact on a variety of matters. Our members also individually interacted with members of the Board of Management and with senior management outside the formal Supervisory Board meetings. From time to time, Supervisory Board members wanted to be informed on, or discuss, a specific topic. This was then followed-up by a member of the Board of Management or senior management.

There were no apparent conflicts of interest of material significance in 2021, which would have called for one of the members not to participate in the decision-making.

In 2021, the Supervisory Board discussed a range of topics, including:

Supervisory Board and Committee Attendance Record

	Supervisory Board physical meetings	Supervisory Board calls	Audit Committee	Nomination & Selection Committee	Remuneration Committee	Digital Committee
Arthur van der Poel	3 / 3	5 / 5		7 / 7	3 / 3	
Gerard van de Aast	3 / 3	5 / 5	5 / 5	7 / 7		
Eelco Blok	3 / 3*	5 / 5	5 / 5			3 / 4
Pamela Knapp	3 / 3	5 / 5	5 / 5	7 / 7		
Rita Lane	3 / 3*	5 / 5			3 / 3	4 / 4
Frank Lubnau	3 / 3	5 / 5			3 / 3	4 / 4

* Mr. Blok and Ms. Lane attended one of the physical meetings via video conference.

- **COVID-19 and supply chain disruptions**
  The COVID-19 pandemic continued to have an impact in 2021, and became part of the standing agenda. Throughout 2021, the Supervisory Board was kept updated on developments around COVID-19, focusing on health & security, procurement, supply chain and manufacturing. The Supervisory Board discussed the latest developments, the current and expected impact, as well as the company's response plans. These topics are expected to remain on the Supervisory Board's agenda in 2022.

- **Strategy, objectives and innovation**
  On an ongoing basis, we had discussions on the company's 5 Frontiers strategy and the commitments of its Brighter Lives, Better World 2025 sustainability program.

  In September 2021, we had our annual Strategy Review, a session dedicated to the company's strategy towards long-term value creation. As part of this session, we discussed key enterprise risks, reviewed the market developments and trends and their strategic implications, and discussed growth opportunities and the competitive landscape. We looked at the company's progress on strategic initiatives and sustainability goals, as well as the company's strategy for the mid-term and strategic initiatives for 2022. This session was complemented by deep dives on growth, capital allocation and the US market. For each of these deep dives, one of the Supervisory Board members had been engaged in the preparation of the discussion.

  The Strategy Review was followed by a Strategic Plan discussion in December in which management presented the 2022-2024 strategic plan, including financial objectives. We also discussed and approved the company's financial targets for 2022 within the context of its 2022 operating plan.

  In addition, management updated us on a quarterly basis on the progress made on the company's strategic initiatives for 2021. Throughout the year, we also discussed the market trends, risks and opportunities as well as the strategy, as part of the market and division updates. We have reviewed, challenged, and advised the Board of Management on the company's implementation of its strategic plan and strategic priorities throughout the year.

  As part of the December meeting, we discussed the company's innovation strategy, and the company's innovation department gave demonstrations of recent and future technologies being developed. The COVID-19 restrictions did not allow for an in-person meeting of the Supervisory Board in December with on-the-ground demonstrations at the High Tech Campus in Eindhoven. This was replaced by live videos from, and discussions with, the teams in the Netherlands, China and the United States, showing technologies developed in each of the regions.

- **Sustainability**
  In September 2020, the company launched its second five-year sustainability program: Brighter Lives, Better World 2025, with a first reporting year in 2021.

  Throughout the year, we were updated on the company's progress on the commitments under this program and the company's strategic initiatives for 2021 to drive growth for sustainability. We also had a dedicated sustainability update, as part of which we reviewed the 2021 materiality assessment that is discussed in more detail in chapter 16, Sustainability statements, sub-section 16.1.1, of this Annual Report.

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

- **Business performance**
  Each quarter, we discussed the company's business performance in detail. These discussions included updates on the company's financial performance on key financial metrics and factors impacting performance and forecasts, both on a global and on a division and market basis. As part hereof, we discussed the (continued) impact of COVID-19, cost increases of raw materials, components and logistics challenges and focus points for the upcoming periods.

- **Financial reporting**
  We discussed the quarterly results and the (semi-) annual financial statements for 2021, including related reports from the internal and external auditors and non-financial information, and related press releases.

- **Digitalization**
  One of the elements of the company's 5 Frontiers strategy is to digitalize and transform for the future. In 2020, the company launched a multiyear digital roadmap with prioritized initiatives based on market trends and customer needs. In view of the importance of digitalization for the company, the Supervisory Board established a Digital Committee from its midst as of January 1, 2021. See also sub-section 8.3.4, Digital Committee.

- **Organizational structure**
  The Supervisory Board reviewed the organizational changes aimed at optimizing costs and enhancing competitiveness by making its central organizational leaner, and as such to adapt to the long-term impact of the COVID-19 pandemic.

- **Risk management and internal controls**
  We discussed the company's risk management and internal controls, including any significant changes and improvements thereto. As part of the annual Strategy Review session in September, we discussed the key enterprise risks identified, and how the company addresses these. In a dedicated session, we discussed the company's IT and cybersecurity risk assessment together with the strategy and initiatives to address these risks. For more information on risk management and the company's business control framework, see chapter 12, Risk factors and risk management, of this Annual Report.

- **M&A**
  In July 2021, the company announced the acquisition of Telensa, a UK-based expert in wireless monitoring and control systems for smart cities. In December 2021, the company also announced the intended acquisition of the US-based Fluence to strengthen the company's global agriculture lighting growth platform and to extent its position in the North American horticultural lighting market. We discussed these transactions in detail with management. As part of our standing agenda, we also discussed other pending and potential acquisitions and divestments, and some additional calls were held to discuss M&A opportunities.

  The Supervisory Board also discussed the performance and integration of Cooper Lighting, the acquisition of which was completed in March 2020.

- **Investor relations**
  From time to time, the investor relations department updated us on feedback from and interactions with investors and analysts, developments in the company's share price and analyst recommendations, as well as updates in the shareholder base.

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

- **Culture**
  As per the feedback of last year's Supervisory Board performance evaluation, in 2021 we introduced a session dedicated to the company's culture: the company's purpose, its values, sustainability and diversity, equity & inclusion, and how it is embedded and fostered in the company's strategy and organization.

- **Talent management**
  The company's human resources department presented its annual update on talent management, succession planning of employees who are in key positions, organizational design, employee NPS, gender and age diversity and focus areas for the coming period.

8.3 Key activities of the Supervisory Board committees in 2021

8.3.1 Audit Committee

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

Pamela Knapp (Chair), Gerard van de Aast and Eelco Blok are the members of this Committee.

The Audit Committee met five times in 2021, upon the conclusion of each quarter and additionally in December. In addition, a combined meeting of the Supervisory Board and the Audit Committee took place in February to review and approve the company's annual report. The Committee also had additional calls on ad hoc topics. The Audit Committee reported its findings to the full Supervisory Board after every meeting. The CEO, CFO, Group Controller, Chief Accountant, Head of Internal Audit, Chief Legal Officer/General Secretary and external auditor (Ernst & Young Accountants LLP) generally attend Audit Committee meetings.

At the end of each meeting, the Committee holds a private session separately with the external auditor, without members of management being present. The Head of Internal Audit is invited to this private session from time to time. The Committee Chair also has regular contact with the CFO, the Head of Internal Audit and the external auditor outside of Committee meetings.

In 2021, the Audit Committee received well prepared information from management and the external auditor on a variety of topics related to the company's financials, reporting policies, controls, practices, and compliance. As part of its standing agenda, the Audit Committee discussed the company's periodic financial statements and related press releases. With the Head of Internal Audit and the Board of Management, the Committee reviews the internal audits executed in the quarter, their assessment, the areas for improvement and positive developments, and management thereof as well as attention points identified through internal audits, and progress and effectiveness of associated mitigation actions. On a quarterly basis, the Committee also reviews the enterprise risk management self-assessments, together with the risk management framework and external risk trend. With the Chief Legal Officer/ General Secretary and the Board of Management, the Committee discussed developments in larger legal cases together with any related provisions as well as pending material investigations together with actions taken. With the Head of Tax and the Board of Management the Committee discussed current tax matters, including the valuation of deferred tax assets and liabilities for uncertain tax positions. The Head of Compliance presented the company's annual integrity report over the past year, and key observations were discussed with the Committee. As part hereof, attention was paid to fraud-related risks.

The Audit Committee reviewed the internal audit plan and programs for each quarter. It also reviewed the internal audit charter, yearly audit plan, as well as the functioning, budget, staffing, independence and organizational structure of the internal audit function. The Committee also discussed the company's business control framework and any significant changes and improvements thereto; this framework sets the standard for risk management and business controls in the company. The Committee reviewed the effectiveness of internal control over financial reporting. The Audit Committee also reviewed its own charter.

In 2021, the Audit Committee also dedicated time to the following matters:

- **Deep dives on selected topics**
  Deep dives on a selection of topics were presented by management and discussed with the Audit Committee, including on the company's insurance policy, hedging policy and payment terms.
- **Annual impairment test**
  The Committee discussed the annual impairment test, which showed no impairment. As the risk that goodwill is impaired decreased following the increase in headroom, the external auditor indicated that it no longer regards the valuation of goodwill as a key audit matter.
- **EU Taxonomy**
  As of 2021, the company will report under the new EU taxonomy reporting framework. The Committee discussed the purpose, the status and the reporting requirements of the EU taxonomy as well as how the company addresses it. For more information, see chapter 16, Sustainability statements, section 16.5, in this Annual Report.
- **External quality assessment**
  As per internal audit standards, an external quality assessment of the internal audit function must be performed at least every five years. In 2021, an external firm performed a full external assessment, with a positive review result.
- **Interaction with external auditor**
  Each quarter, the company's external auditor Ernst & Young Accountants LLP shared with the Board of Management and the Audit Committee its observations relevant for their 2021 annual audit of the financial statements. In its reports, the external auditor focused on specific areas and developments. These included the key audit matters, which are described in more detail in the combined independent auditor's report, which is included in chapter 17 of this Annual Report. The external auditor also shared its observations and considerations on management judgement and estimates applied in the preparation of the financial statements. The external auditor discussed their observations during the quarterly Audit Committee meetings.

  The discussions with the external auditors 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, in chapter 15, Company financial statements, of this Annual Report.

8.3.2 Corporate Governance and Nomination & Selection Committee

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

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

The Committee met seven times in 2021 and reported its findings to the full Supervisory Board after each meeting. The CEO and Chief Legal Officer/General Secretary generally attend the Committee's meetings. The Committee Chair has regular contact with the CEO and the Chief Legal Officer/General Secretary. Various topics are often prepared among the Committee members ahead of a Committee meeting, resulting in efficient decision-making during the meetings.

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

In 2021, the Committee specifically dedicated time to the following matters:

- **Composition Supervisory Board**
  In 2021, the Committee prepared and led an assessment and selection process that resulted in the proposal by the Supervisory Board to appoint Bram Schot as Supervisory Board member at the Annual General Meeting of Shareholders (AGM) to be held on May 17, 2022. The Supervisory Board recommends Bram Schot in view of his managerial experience and extensive technology knowledge, which he combines with a strong understanding of the importance of a customer-centric approach, which we think will provide us with valuable insights. In each selection process, the Committee takes account of the desired board profile, including its diversity policy and expertise and experience as well as the desired board size.

  Eelco Blok will reach the end of his four-year term at the AGM 2022, and will then step down as a member of the Supervisory Board at his own request.

- **Board size and profile, including diversity**
  We believe that it is of strategic importance that our Board of Management and Supervisory Board are composed in line with Dutch and international corporate governance best practices and that they have the expertise needed for a good understanding of current affairs and longer-term risks and opportunities related to the company's business, taking into account our objectives that promote diversity at board level. Our boards' profile and the Supervisory Board skills and expertise matrix reflect the areas that the Committee and Supervisory Board regard to be most relevant to address the transition in the lighting industry and the execution of the company's 5 Frontiers strategy. In 2021, the Committee reviewed the matrix categories and the profile (both updated in 2020), and concluded that these currently do not require a further amendment. In 2021, the skills and expertise matrix was complemented with the publication of expanded biographies of the Supervisory Board members on the company's website.

Supervisory Board skills and expertise matrix

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

Skill/experience item	Arthur van der Poel	Gerard van de Aast	Eelco Blok	Pamela Knapp	Rita Lane	Frank Lubnau
CEO role	✓	✓	✓			
Industrial experience	✓	✓		✓	✓	✓
Finance, expert level		✓		✓		
Sustainability	✓			✓		
Projects/infrastructure		✓				
Business transformation	✓	✓	✓	✓		✓
Digital business processes		✓	✓	✓	✓	✓
IT, cybersecurity			✓		✓	✓
Technology/innovation	✓		✓		✓	✓
Diversity elements: Gender, age, nationality	Male 73 Dutch	Male 64 Dutch	Male 64 Dutch	Female 63 German	Female 59 American	Male 52 German

The composition of the Supervisory Board was also addressed in the annual performance evaluation (see also below). The Supervisory Board observed that its current size is good, and that the board is balanced, has a good skills base and strong diversity of gender, background and ideas.

Both the Board of Management and the Supervisory Board comprise of two-third men and one-third women, in line with the company's diversity objectives that at least 30% are men and at least 30% are women on the board. For more details on the profile including diversity of the Board of Management and Supervisory Board, please refer to chapter 10, Corporate governance, of this Annual Report. For more information on diversity and inclusion in the company, please refer to chapter 16, Sustainability statements, section 16.3, of this Annual Report.

The Supervisory Board currently regards its size and composition to be adequate to perform its duties. The Committee will continue to periodically assess its size and composition, including the desired diversity, and initiate searches where indicated.

- **ESG committee**
  We noted the suggestion from some stakeholders to companies in general to consider establishing an ESG committee from among their supervisory boards to support progress on sustainability. Sustainability has been an integral part of Signify's strategy for many years. The full Supervisory Board is engaged in the strategy, including sustainability. The

company also publishes extensive sustainability statements. In view of this, we see no need to establish an ESG committee from among the Supervisory Board.

8.3.3 Remuneration Committee

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

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

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

The Remuneration Committee met three times in 2021 and reported its findings to the full Supervisory Board after each meeting. The CEO, the Chief HR Officer, the Chief Legal Officer/General Secretary and the Head of Rewards generally attend the Committee’s meetings. The committee also consulted with the CEO, the Board of Management and certain other key management employees. Following those consultations, the Committee prepared decisions and advised the Supervisory Board.

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

No changes were proposed to the remuneration policy for the Board of Management nor for the Supervisory Board in 2021. The Committee reflected on the AGM advisory vote on the 2020 remuneration report, also in comparison with the vote on the prior year's report and changes in the remuneration report made since. The Committee Chair engaged with key stakeholders, such as shareholders, shareholder representative groups and the Dutch Central Works Council, to obtain feedback on executive remuneration in general and attention points for the 2021 remuneration report, and reported the findings back to the Committee and the Supervisory Board.

Please also refer to chapter 9, Remuneration Report, of this Annual Report, for further information on the remuneration policies for the Board of Management and the Supervisory Board and how these were implemented in 2021.

8.3.4 Digital Committee

In view of the importance of digitalization, the Supervisory Board established the Digital Committee as of January 1, 2021.

The Digital Committee assists the Supervisory Board by, amongst other matters, reviewing the company’s digital strategy and roadmap, digital objectives and performance and the governance for deciding on digital prioritization.

Frank Lubnau (Chair), Eelco Blok and Rita Lane are the members of this Committee.

The Digital Committee met four times in 2021 and reported its findings to the full Supervisory Board after each meeting. The Committee also had additional working sessions and deep dives on particular transformation topics and projects. The CFO, the Chief Digital and Information Officer (CDIO) and the Chief Legal Officer/General Secretary generally attend the Committee meetings. The Committee Chair has regular contact with the CFO and the CDIO.

In early 2021, the company's management further strengthened its digital foundation and governance, and established a digital steering committee with participation from key business and technology stakeholders. The company also appointed a Chief Digital and Information Officer (CDIO) to its leadership team, to drive the company's digital aspiration to lead the lighting industry by building and maintaining a sustainable competitive advantage through a superior digital experience and data insights.

The Digital Committee was closely engaged in the company's strategy to further strengthen its digitalization initiatives. In the first meetings, the Committee had in depth discussions on the key components of the company's digital aspiration. It reviewed and advised on the company's digital strategy, roadmap and priorities, to support the company's overall strategy. Once the foundation of the Committee's activities was laid, the Committee discussed with management the highlights and priorities on a quarterly basis.

8.4 Performance evaluation

We evaluated the performance of the Board of Management and of the Supervisory Board and its committees in 2021.

The Board of Management also performed a self-evaluation of its functioning and the functioning of its individual members. The members of the Board of Management shared their views on their team and personal targets performance in a dialogue with the Chair and Chair of the Remuneration Committee, which were discussed in the Supervisory Board.

The objective of our Supervisory Board self-evaluation is to gain better insight into the functioning of the Supervisory Board, to identify strengths that we want to keep and to identify matters that the Supervisory Board or the company can improve. Building on feedback provided in 2020, together with relevant developments in 2021, we prepared

an updated questionnaire. The questionnaire addressed, among other matters, the focus of discussions during our meetings, the depth and quality of discussions on key topics, the functioning of the committees, the relationship between the Board of Management and the Supervisory Board, the views on the Supervisory Board as a team and how it conducted itself, learnings from 2021, as well as the desired focus in the future.

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

The self-evaluation has once again provided valuable insights on how the Supervisory Board operates as a team and where the Supervisory Board and the company can improve. In 2021, the Supervisory Board experienced that it operated as a critical and constructive team. The Supervisory Board meetings were found to be well prepared, and the discussions open and to the point. The evaluation brought practical insights, for example how valuable the Supervisory Board members find it to meet in person and to meet with senior management around the board meetings, which will thus be continued when the COVID-19 situation permits. In addition, the evaluation identified topics for further discussions, such as on the company's operating environment and competition.

8.5 Financial statements 2021 and dividend

Signify’s Consolidated and Company financial statements for 2021, as prepared by the Board of Management, have been audited by Ernst & Young Accountants LLP as independent external auditor appointed by the General Meeting of Shareholders. Its report has been included in the Combined independent auditor’s report. We have approved these financial statements.

We recommend to the General Meeting of Shareholders to adopt the financial statements for 2021. We likewise recommend to shareholders that they adopt the proposal by the Board of Management to declare a cash dividend of EUR 1.45 per ordinary share from the 2021 net income.

8.6 Appreciation

The year 2021 proved to be another year full of challenges caused by the ongoing COVID-19 pandemic and subsequent supply disruptions. We would like to thank the Board of Management and all Signify employees for their continued commitment and great work throughout the year, which resulted in a solid performance.

February 22, 2022

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

9 Remuneration report

9.1 Letter from the Remuneration Committee Chair

On behalf of the Supervisory Board, I am pleased to present the 2021 remuneration report. This report includes a detailed explanation of the current remuneration policies for the Board of Management and the Supervisory Board. The effectuation of these policies in 2021 is discussed in parts 9.2 and 9.3 of this remuneration report.

This was another challenging year with the continued impact of COVID-19 and the overall supply chain and component availability issues. We are very proud of how the company performed in 2021, and the resilience that was exhibited. The company responded quickly as conditions changed in the supply chain and COVID-19 resulted in ongoing uncertainty around the world, while employees continued to focus well to deliver for our stakeholders. Over the course of 2021 we continued our engagement with key stakeholders, such as shareholders, shareholder representative groups and the Dutch Central Works Council, to understand their views on remuneration in general and to solicit feedback on the remuneration report of Signify. These interactions were very productive, leading to a good dialogue and valuable feedback, particularly on the strong link that exists between Signify's ESG metrics and remuneration for the Board of Management via the company's long-term incentive plan.

Signify's performance in 2021

Signify had a solid performance in 2021 given the volatility of the year. Our industry continued to be challenged with supply chain issues and with uncertain and inconsistent recovery in many markets. However, Signify was able to capitalize well on demand and provide customers with solutions to solve their particular business needs. In addition, the company was able to minimize supply chain disruptions to our customers. As a result, the company experienced an increase in comparable sales growth. Moreover, profitability as a percentage of sales improved and free cash flow performance was again very solid. Relative to the targets set at the beginning of 2021, the results on the key financial measures and the achievement against individual targets resulted in an above target outcome on the annual incentive for the Board of Management.

Signify continues to lead the way in sustainability with the Brighter Lives, Better World 2025 program. Signify continues to strongly perform on the ambitious targets set in the sustainability programs, such as circular economy via circular revenues, and climate action via the company's intent to double the pace of achieving the 1.5°C scenario of the Paris Agreement (1.5°C pathway over our value chain to reach the 2031 ambition in 2025, or 6 years early). This positive financial and non-financial performance in free cash flow, relative total shareholder return and sustainability is also reflected in the over achievement of the conditions for vesting of the 2019

long-term incentive plan. Maintaining this ambitious drive beyond carbon neutrality, which was achieved in 2020, the company continues to lead the way both in sustainability overall as well as in the direct link with the remuneration of the Board of Management.

TSR peer group

There continues to be much change in our industry. During 2021, Cree sold its LED products business unit becoming a pure-play semiconductor company in the process. As a result, we have reviewed their inclusion in the TSR peer group and determined that it is best to replace Cree. The current TSR performance peer companies and potential replacement competitor companies were analyzed in terms of underlying parameters such as risk, size, value/growth, etc. to determine an appropriate replacement for Cree. As a result, per January 1, 2022, Cree was replaced by MLS Co Ltd., a direct competitor of Signify in LED lighting.

Stakeholder engagement

Signify's 2021 Annual General Meeting of Shareholders was held on May 18, 2021.

The changes we introduced to the remuneration report have been welcomed and well received and the 2020 remuneration report was supported by shareholders.

To further understand stakeholder feedback on the Signify Remuneration Report 2020, as well as views on executive remuneration in general, we engaged with stakeholders, such as shareholders, shareholder representative groups and the Dutch Central Works Council, prior to the creation of the Remuneration Report for 2021.

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

i) the degree of discretion that the Remuneration Committee may take in determining remuneration over 2021, and;

ii) the link between ESG metrics and remuneration overall.

With respect to the first item, the outcomes on both the annual incentive plan and the long-term incentive plan reflect the actual performance despite the continued challenges presented over 2021. No discretion was applied on those outcomes, nor were targets adjusted during 2021. The link between ESG metrics and remuneration overall was a key component of all stakeholder conversations. Signify was identified as being a leader in their approach to sustainability, the degree of reporting on these metrics and the related link to the long-term incentive plan. We are pleased with this feedback and continue to evolve the 2021 report in direct response to this feedback. We trust that stakeholders will experience these changes positively and appreciate the spirit of transparency and continuous improvement which drives them.

Gerard van de Aast
Chair of the Remuneration Committee

9.2 Remuneration Board of Management

Introduction

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

Signify's value creation model:

The value created by Signify goes beyond financial performance alone. Our approach is to optimize long-term value through financial, environmental and social resources. Our focus on environment and societal implications of doing business is evidenced in our Brighter Lives, Better World 2025 program. This program links to our long-term incentive plan and ensures that the interests of the organization, society at large and our impact on the environment in which we live are key elements in how Signify delivers long-term value creation to stakeholders. Our activities and our way of doing business impact customers, employees, investors and society at large. Signify expresses these impacts in monetary terms in chapter 3, Creating long-term value, section 3.3, of this Annual Report.

The current remuneration policy for the Board of Management and for the Supervisory Board was adopted by the Annual General Meeting of Shareholders (AGM) in 2020. The effectuation of these policies in 2021 is discussed in parts 9.2 and 9.3 of this remuneration report.

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

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

Remuneration components

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

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

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

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

Labor Market Peer Group		
Aalberts	DSM	Prysmian Group
AkzoNobel	KPN	Rexel
ASML	Legrand	Rheinmetall Group
BAM	Nexans	Siemens Gamesa
Boskalis	OSRAM	

The Supervisory Board reviews the peer group on a regular basis and may adjust to ensure that the companies in the group remain relevant peers. Signify joined the AEX on March 22, 2021. This has not led to a change in the labor market peer group since Signify as a company has not changed significantly.

Summary of Remuneration

		Policy Summary		Application in 2021 Summary	
Total direct compensation	Base salary	• The Supervisory Board determines the base salary and may, at its discretion, apply an increase. • The base salary may not be adjusted with a higher percentage than a collective labor agreement (CLA) increase agreed for the CLA population in the Netherlands.		Base salary as follows: E.H.E. Rondolat F.J. van Engelen Sousa M.L. Mariani	 € 919,737 € 601,800 € 601,800
	Annual cash incentive	CEO: On-target: 80% Maximum: 160% of base salary	Other BoM members: On-target: 60% Maximum: 120% of base salary	Measures: • Comparable sales growth (30%) • Adjusted EBITA (30%) • Free cash flow (20%) • Team/individual (20%)	
		80% is related to financial performance measures and focuses on the realization of strategic business objectives. 20% is related to team and individual performance measures.		Actual pay-out: E.H.E. Rondolat F.J. van Engelen Sousa M.L. Mariani	In % of target: 111.4% 111.4% 111.4%
	Long-term equity based incentive	CEO: Annual on-target grant value: 100% of base salary	Other BoM members: Annual on-target grant value: 80% of base salary	2021 grant: E.H.E. Rondolat F.J. van Engelen Sousa M.L. Mariani	 21,312 PSUs 11,156 PSUs 11,156 PSUs
		Key features: • Granted in performance share units (PSUs) only. • Conditionally granted annually. • Vesting of performance shares conditional upon achievement of performance conditions measured over a period of three financial years. • Performance measured using four performance measures equally weighted: i) relative total shareholder return (25%), ii) free cash flow (25%), iii) return on capital employed (25%) and iv) sustainability (25%). This applies to grants from 2020. • For the LTI grant made in 2019, the previous performance conditions continue to apply: i) relative total shareholder return (40%), ii) free cash flow (40%) and iii) sustainability (20%). • Pay-out per performance measure can vary between 0% and 200%. • In case of external hires, a restricted share units (RSUs) based sign-on award can be offered.		• Conditional on continued employment. • Holding requirement (part 9.2.8 of this remuneration report): CEO: 300% of base salary Other BoM members: 200% of base salary • Additional requirement to comply with holding requirements under the Dutch corporate governance code (total 5 years from grant date)	

		Policy Summary	Application in 2021 Summary	
Other compensation	Pension benefit	• Collective defined contribution plan up to the maximum pensionable salary (2021: EUR 112,189). • Gross pension allowance of 25% of the base salary exceeding the maximum pensionable salary. • Members of the Board of Management can, on a voluntary basis, choose to participate in a net pension arrangement by investing the net (after tax) amount. • Temporary gross transition allowance for a maximum period of eight years, offsetting historical plan changes.	 E.H.E. Rondolat F.J. van Engelen Sousa M.L. Mariani	Accumulated annual pension as of Dec 31, 2021: € 42,188 € 2,677 € 2,824
	Additional benefits	Additional benefits, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements.		
			CEO:	Other BoM members:
		Car allowance gross per annum (or lease car):	€ 36,960	€ 31,560
		Entertainment expense allowance net per annum:	€ 23,920	€ 6,000
		Representation allowance net per annum:	€ 6,800	
		Relocation allowances:	F.J. van Engelen Sousa (per contractual agreement received upon family relocation):	
			One-off net housing allowance:	€ 142,000
			One-off net relocation allowance:	€ 5,000
			Allowance international school (net):	€ 12,500

The table below reflects the total remuneration as well as the remuneration costs of each of the members of the Board of Management in 2021.

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

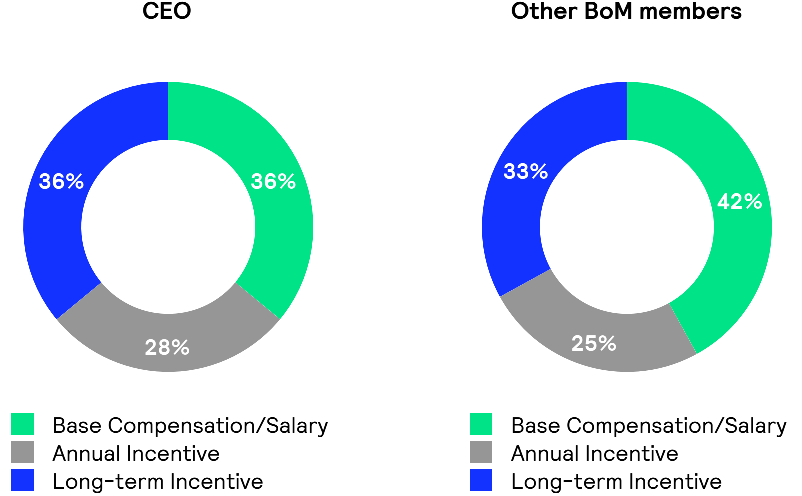
	Base compensation/ salary [1]	Annual incentive [2]	Performance shares costs [3]	Restricted share rights costs [4]	Pension allowances	Pension scheme costs	Other compensation [5]	Termination benefits [6]	Total remuneration costs
2021									
E.H.E. Rondolat	919,737	819,670	1,156,993	—	266,639	29,403	37,590	—	3,230,032
F.J. van Engelen Sousa	601,800	402,243	115,445	162,072	122,403	29,403	41,434	—	1,474,800
M.L. Mariani	601,800	402,243	528,117	—	122,403	29,403	45,261	—	1,729,227
	2,123,337	**1,624,156**	**1,800,555**	**162,072**	**511,445**	**88,209**	**124,285**	**—**	**6,434,059**
2020									
E.H.E. Rondolat	850,368	628,307	1,411,630	—	293,352	24,378	37,300	—	3,245,335
F.J. van Engelen Sousa [7]	321,818	150,114	-	29,750	65,439	12,060	20,572	—	599,753
M.L. Mariani [8]	337,476	184,687	601,473	—	70,717	14,070	17,068	—	1,225,491
C.L. van Schooten [9]	555,522	307,841	971,615	—	184,820	24,378	33,445	589,057	2,666,678
S.L.A. Rougeot [10]	95,000	-	(185,279)	—	19,162	4,271	6,623	—	(60,223)
	2,160,184	**1,270,949**	**2,799,439**	**29,750**	**633,490**	**79,157**	**115,008**	**589,057**	**7,677,034**

1 Base compensation/salary for 2020 includes 20% COVID-19 reduction in base salary in Q2 2020.
2 The annual incentive is related to the performance in the year reported which is paid out in the subsequent year.
3 Costs of performance shares are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date. Comparatives for 2020 were revised as performance shares costs for C.L. van Schooten were EUR 242.363 higher than disclosed in 2020. The performance shares costs for M.L. Mariani also include the costs for shares awarded when she was not yet a member of the Board of Management.
4 Costs of restricted shares rights are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date and concerns the sign-on grant of EUR 300,000 for F.J. van Engelen Sousa.
5 The stated amounts mainly concern (part of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a part of an allowance can be considered as (indirect) remuneration (for example, private use of the company car or car allowance), then such part is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. Net allowances are not included.
6 As the company elected not to renew the services contract of C.L. van Schooten after the end of term in May 2021, as per his services contract, he received a lump sum payment of one time the annual base compensation/salary (gross amount of EUR 589,057) in June 2021. An additional tax levy, pursuant to Article 32bb of the Dutch wage tax act, will be payable by the company over the total remuneration of C.L. van Schooten. The estimate was revised to EUR 2,405,224 (2020 estimate: EUR 543,883). The calculation of the tax levy due by the company includes the taxable value of the long-term equity-based incentive. That taxable value depends on the final number of shares that will be delivered to C.L. van Schooten in 2022 and 2023 (pending final achievement of performance conditions) and the company's share price upon delivery of the shares (these equity rights were granted in 2019 and 2020).
7 Hired per June 15, 2020, and appointed member of the Board of Management on October 27, 2020 EGM. Remuneration costs present the entire period functioning as CFO as of June 15, 2020.
8 Appointed member of the Board of Management in May 20, 2020 AGM. Remuneration costs present the period functioning as member of the Board of Management as of May 20, 2020.
9 Relinquished his position on the Board of Management per January 1, 2021
10 Stepped down as member of the Board of Management per March 1, 2020.

All remuneration was paid in accordance with the remuneration policy.

9.2.1 Mix of remuneration elements

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



The table below shows the actual remuneration mix in 2021.

	Fixed [1]	Variable [2]	Proportion fixed/ variable
E.H.E. Rondolat	1,253,369	3,077,644	29%/71%
F.J. van Engelen Sousa [3]	795,040	402,243	66%/34%
M.L. Mariani [3]	798,867	402,243	67%/33%

[1] Base compensation/salary, pension allowances, pension scheme costs, other allowances as reported in the table 'Remuneration and remuneration costs of individual members of the Board of Management' under 9.2.

[2] Annual incentive realized as reported in the table 'Remuneration and remuneration costs of individual members of the Board of Management' under 9.2 and Long-term incentive value at vesting date in 2021 as reported in the table 'Performance shares 2018 - 2021' under 9.2.5.

[3] The variable remuneration for F.J. van Engelen Sousa and M.L. Mariani does not yet include an LTI vesting value as Board of Management member and therefore the mix fixed/variable differs from the mix for the other Board of Management member.

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

9.2.2 Base salary

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

The annual compensation of the members of the Board of Management was reviewed in 2021 in line with the regular remuneration review. The Remuneration Committee considered the input of the Board of Management members in setting their pay levels.

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

New base salaries Board of Management in 2021 in EUR

	January 1, 2021 (+ 2%)
E.H.E. Rondolat	919,737
F.J. van Engelen Sousa	601,800
M.L. Mariani	601,800

9.2.3 Variable remuneration

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

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

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

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

9.2.4 Annual cash incentive

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

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

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

The financial performance measures used in the annual incentive to track performance over 2021 were comparable sales growth (measured as a percentage of sales), Adjusted EBITA (measured as a percentage of sales) and free cash flow (measured as a percentage of sales). These measures were determined by the Supervisory Board to reflect the best alignment with the company's strategy and financial objectives for the mid-term focusing on profitable growth. The financial targets for 2021 were set within the context of the medium-term objectives of the company at the beginning of the year and did not change over the course of 2021. Pay-out between the financial targets is linear.

The team/individual performance measures are recommended by the CEO and discussed and ultimately approved by the Supervisory Board. For 2021, these measures included Brighter Lives, Better World 2021 targets, employee and customer Net Promoter Scores, operational efficiency, sales growth for new growth engines, digital roadmap impact and implementation of the reorganization of the central functions.

Performance achievements 2021

Performance against financial targets are reviewed on a quarterly basis. The assessment of performance under the annual incentive plan is concluded by the Supervisory Board.

For 2021, the company performed well given the considerable external challenges it faced during the year. Although the company returned to growth, comparable sales growth was below the target level of performance resulting in an achievement of 80%. Adjusted EBITA was above the target level of performance that was set at the beginning of 2021, reflecting improved profitability, and as such results in an achievement of 160%. The company also performed well on free cash flow with a result above target level of performance resulting in an achievement of 107.1%. The Supervisory Board did not apply any discretion to the outcomes of the financial measures, nor were any changes made to the original targets set for the year 2021.

Finally, the Supervisory Board assessed the achievement of the Board of Management relative to each of their individual goals and their collective team goals. The Supervisory Board was very pleased with the overall implementation during 2021 of the program to create a leaner central organization. In doing so, the Board of Management achieved cost-saving measures while increasing focus on innovation and sustainability. Progress towards the Brighter Lives, Better World 2025 program remains very strong, with 3 out of 4 of the metrics on track or above the expected trajectory to double Signify's impact. Carbon footprint reduction, circular revenues, and Brighter Lives revenues were on track or above the expected trajectory to achieve the ambitions of the 2025 program.Women in leadership positions was off track relative to the ambition for the year, although the Supervisory Board was pleased that it has continued to improve in 2021, reflecting an 8% increase since 2019. Lastly, there has been very good progress on the delivery of the digital roadmap specifically related to customer interfaces and experience, as well as process automation.

From a customer perspective, the Supervisory Board was very pleased with the continued progress in the customer Net Promoter Score from 41 in 2020 to 44 in 2021, notwithstanding the ongoing supply chain and COVID-19 related challenges. Despite this improvement, it remained slightly below our ambition of a customer Net Promoter Score of 45. From a great place to work perspective, despite a dip early in the year due to the impact of creating a leaner central organization, the employee Net Promoter Score recovered very well to end 2021 at an all-time high of 32 and above the goal of 30 versus 29 at the end of 2020.

The company experienced high demand for connected lighting and performed solidly in the growth platforms. Connected lighting sales grew by 21% and growth platforms grew by 19%. Despite this positive trajectory, performance across the growth platforms was overall behind expectations. Due to significant supply chain disruptions in 2021, which included global component shortages and logistics challenges, the company was impacted on its ability to meet the high demand. As a result, operational efficiencies in the form of savings and service levels were also behind expectations.

The Supervisory Board reviewed the team and individual objectives and achievements as described above and assessed performance for 2021 as strong. As a result, the Supervisory Board has determined that the realized performance on this measure was 90%.

The summarized outcomes realized on all measures are as follows:

Performance measures	Weighting	Realized	Realized %	Multiple achieved
Comparable sales growth	30%	3.8%	80.0%	**24.0%**
Adjusted EBITA	30%	11.6%	160.0%	**48.0%**
Free cash flow	20%	8.9%	107.1%	**21.4%**
Team and individual performance measures	20%	90.0%	90.0%	**18.0%**
Multiple achieved				**111.4%**

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

Annual incentive realization 2021 in EUR

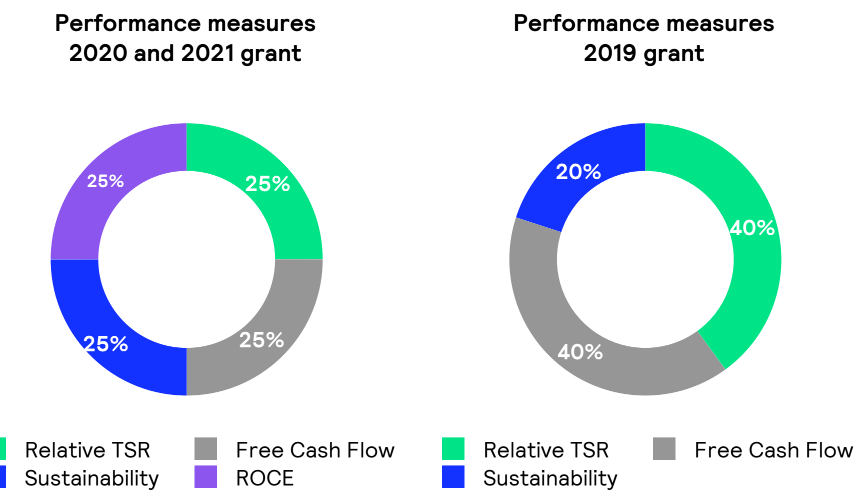
	Annual base		on-target % of annual base		Multiple achieved		Realized annual incentive (in EUR)
E.H.E. Rondolat	919,737	x	80%	x	111.4%	=	819,670
F.J. van Engelen Sousa	601,800	x	60%	x	111.4%	=	402,243
M.L. Mariani	601,800	x	60%	x	111.4%	=	402,243

9.2.5 Long-term equity-based incentive

Members of the Board of Management are eligible for a long-term equity-based incentive under the Signify Long-term Incentive Plan (LTI Plan). The objective of the long-term incentive is to link pay with long-term sustainable value creation. In addition to the Board of Management, another approximately 700 employees globally are eligible for participation in a similar long-term incentive plan.

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

- The long-term incentive is granted in performance shares only and granted annually.
- The vesting of performance shares is conditional upon the achievement of performance conditions measured over a period of three financial years and continued Signify employment.
- Performance is measured using four performance measures in 2021: relative total shareholder return (25%), free cash flow (25%), return on capital employed (25%) and sustainability (25%).
- Pay-out per performance measure can vary between 0% and 200%.



Relative TSR

The vesting of 25% (40% for 2019 grant) of the shares granted is subject to a TSR condition. Relative total shareholder return (TSR) measures the share price growth plus dividends paid over the three-year performance period. Performance is expressed as a percentage. This percentage is compared to the TSR performance of companies included in the peer group specifically compiled for this purpose. The TSR performance is determined for each company in the peer group and the performances are ranked from top to bottom. Signify's position in the ranking, together with the pay-out curve, determines the pay-out level,
In 2021, the peer group consisted 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, and so on) the Supervisory Board will ensure that the adjusted peer group remains aligned with the strategic objectives, the geographical spread and the business characteristics of Signify. As explained in the letter of the Remuneration Committee Chair under 9.1, per January 1, 2022 Cree was replaced by MLS Co Ltd. This means that:

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

Performance-incentive zone for TSR in % of grant value (2020 and 2021 grant)

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

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

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

Free cash flow

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

Sustainability

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

Return on capital employed

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

In 2021, performance shares were granted to the members of the Board of Management. These grants are governed by the Signify long-term incentive plan. The grant is made on the basis of the average closing share price of the three months preceding the date of grant. In this way, the Signify granting policy ensures mitigation of share price volatility.

The following tables provide an overview of the Signify shares awarded and held by the Board of Management in 2021.

Performance shares 2018-2021

	Grant date	Number of performance shares originally granted	Value at grant date (in EUR)	End of vesting period	Number of performance shares vested in 2021	Value at vesting date in 2021 (in EUR)
E.H.E. Rondolat	2018	28,103	850,000	2021	47,214	2,257,974
	2019	35,148	871,000	2022	n.a.	n.a.
	2020	45,932	901,703	2023	n.a.	n.a.
	2021	21,312	919,737	2024	n.a.	n.a.
F.J. van Engelen Sousa	2020	-	-	2023	n.a.	n.a.
	2021	11,156	481,440	2024	n.a.	n.a.
M.L. Mariani [3]	2020	23,228	456,000	2023	n.a.	n.a.
	2021	11,156	481,440	2024	n.a.	n.a.

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

	January 1, 2021	Awarded 2021	Awarded dividend shares 2021	Realized 2021	December 31, 2021	Vesting date [1]
E.H.E. Rondolat	28,103	—	2,183	47,214	—	03 05 2021
	35,148	—	—	—	35,148	02 05 2022
	45,932	—	—	—	45,932	01 05 2023
	—	21,312	—	—	21,312	01 05 2024
F.J. van Engelen Sousa [2]	—	—	—	—	—	01 05 2023
	—	11,156	—	—	11,156	01 05 2024
M.L. Mariani [3]	23,228	—	—	—	23,228	01 05 2023
	—	11,156	—	—	11,156	01 05 2024
Performance shares (holdings)	**132,411**	**43,624**	**2,183**	**47,214**	**147,932**	

1 Under the long-term incentive plan terms, the vesting date is on the first business day after the publication of Signify's first quarter results in the third anniversary year of the grant date. The dates for 2023 and beyond in this table are for illustrative purposes only.
2 F.J. van Engelen Sousa did not participate in the long-term incentive plan in 2020; he received a EUR 300,000 sign-on grant under the restricted share rights plan in that year.
3 Only the shares granted as member of the Board of Management are included.

The three-year performance period for the 2018 performance share grant ended on December 31, 2020. The shares under this grant vested on May 3, 2021 with a vesting percentage of 168%.

At December 31, 2021, the members of the Board of Management held no options on Signify shares.

9.2.6 Realization of the 2019 grant

The three-year performance period for the 2019 performance share grant ended on December 31, 2021. The shares under this grant vest on May 2, 2022.

The pay-out results are as follows:

Relative TSR (40% weighting)

The TSR achieved by Signify during the performance period was 116.6%. This positioned Signify as the 5th ranked company in the peer group shown in the following table, resulting in an achievement of 160%.

January 1, 2019 – December 31, 2021		
Rank	**Company**	**TSR Performance**
1	Cree (Wolfspeed)	174.9%
2	Schneider Electric	168.8%
3	Johnson Controls	146.7%
4	Eaton Corporation	142.2%
5	**Signify**	**116.6%**
6	Hitachi	114.3%
7	Hubbell	96.6%
8	Legrand	87.5%
9	ABB	78.2%
10	Acuity Brands	69.6%
11	Honeywell	57.3%
12	Toshiba	49.8%
13	Panasonic	23.3%
14	Zumtobel Group	12.6%
15	Fagerhult	2.0%

Free cash flow (40% weighting)

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

	Pay-out	As % of sales
Below threshold	0%	< 7.0%
Threshold	40%	7.0%
Target	100%	7.7%
Maximum	200%	8.4%

Over the three-year performance period, an amount of EUR 1,754 million free cash was generated (excluding pension de-risking and IFRS 16), representing 8.9% of sales. In light thereof, the Supervisory Board determined the LTI Plan free cash flow achievement as 200%.

Sustainability (20% weighting)

The sustainability objectives for 2021 were based on the intent to double Signify's impact in the areas of climate action, the circular economy, brighter lives revenues and women in leadership positions by 2025. In all areas, significant progress has been made relative to the trajectory to deliver on the ambitions by 2025. Signify is on track to deliver against the ambitious goal of doubling the pace of the Paris Agreement's 1.5ºC scenario. Women in leadership positions has increased by 8% from 2019, but falls slightly slightly behind the trajectory to double the percentage of women in leadership positions by 2025. Circular and brighter lives revenues have exceeded the ambition set for 2021 with an increase in contributions from circular products, systems or services and an increase in revenues coming from lighting innovations that increase food availability, safety and security, or health and well-being. Based on the following LTI Plan sustainability measures and results over the performance period, the Supervisory Board determined the LTI Plan sustainability achievement as 183%.

			Status [1]	Result 2021 [2]
Better World	Climate action	Carbon footprint reduction	On Track	Steady decrease of emissions (scope 1, 2 and 3)
Better World	Circular economy	Circular revenues	On Track	21% - 25%
Brighter Lives	Food availability Safety & security Health & well-being	Brighter lives revenues	On Track	25% - 27%
Brighter Lives	Great place to work	Women in leadership positions	Off Track	25%

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

In view of the above, the following performance achievement and vesting levels have been determined by the Supervisory Board in respect of the 2019 grant of performance shares. The Supervisory Board did not apply any discretion in the determination of the performance outcomes nor were targets adjusted during the plan period.

	Achievement	Weighting	Vesting level
TSR	160%	40%	64.0%
Free cash flow	200%	40%	80.0%
Sustainability	183%	20%	36.6%
Total			**180.6%**

9.2.7 Share ownership guidelines and holding requirement

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

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

Signify Shares held by Board members in number of shares

	December 31, 2020	Holdings as % of base [1]	December 31, 2021	Holdings as % of base [1]
E.H.E. Rondolat	167,772	648.4%	195,038	877.9%
F.J. van Engelen Sousa	-	-%	10,000	68.8%
M.L. Mariani	7,009	42.9%	18,591	127.9%

[1] As per BoM and LT Share Ownership Guidelines, to determine the value of shares on a specific date, the shares held are multiplied by the average of the closing prices of the shares on Euronext Amsterdam in the two months prior to that date (2021: EUR 41.40 and 2020: EUR 34.85).

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

9.2.8 Pensions and other benefits

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

The following pension arrangement is in place for the members of the Board of Management:

- The flex pension plan in the Netherlands, which is a collective defined-contribution plan with a fixed contribution of 30.3% up to the maximum pensionable salary of EUR 112,189 (2021).
- Members of the Board of Management pay a member contribution of 2% up to the maximum pensionable salary of EUR 112,189 (2021).
- The flex pension plan has a target retirement age of 68 (in 2021) 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 112,189 and can choose to participate in a net pension arrangement by investing the net (after-tax) amount. The net pension arrangement is in line with all other Signify employees in the Netherlands whose pensionable salary exceeds the cap. Participation in this net pension arrangement is voluntary.
- A temporary gross transition allowance, for a maximum period of eight years (first five years in full; year 6: 75%; year 7: 50%, year 8: 25%). The temporary gross transition allowance only applies to members of the Board of Management who were employed before January 1, 2015, and participated in the former executive pension plan, before the change to the flex pension plan per January 1, 2015, with the capping of pension accruals and increase of pensionable age in line with the retirement age for state pension (AOW). The level of the allowance is based on the age and salary of the Board Member on December 31, 2014. As such this only applies to E.H.E. Rondolat.

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

Accumulated annual pension entitlements and pension-related costs in EUR

	Age at December 31, 2021	Accumulated annual pension as of December 31, 2020 [1]	Total pension-related costs 2020 [2]	Accumulated annual pension as of December 31, 2021 [1]	Total pension-related costs 2021 [2]
E.H.E. Rondolat	55	40,393	317,730	42,188	296,042
F.J. van Engelen Sousa	53	882	77,499	2,677	151,806
M.L. Mariani	61	1,029	84,787	2,824	151,806
Pension costs			**480,016**		**599,654**

[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 2021, no (additional) pension benefits were granted to former members of the Board of Management.

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

In the case of F.J. van Engelen Sousa, to facilitate relocation to the Netherlands, upon relocation of his family in 2021 the remainder of the housing allowance, EUR 142,000 net (in

2020: EUR 35,000 net), and the remainder of the relocation allowance, EUR 5,000 net (in 2020: EUR 12,000 net), was paid. In addition, an allowance for the international school costs of EUR 12,500 net was paid in 2021.

9.2.9 Change of the remuneration and company performance

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

Remuneration and company performance development in EUR unless otherwise stated

	2017	2018	2019	2020	2021
E.H.E. Rondolat [1]	3,048,621	2,564,306	2,822,104	3,245,335	3,230,032
Change in %		(16)%	10%	15%	(0.5)%
F.J. van Engelen Sousa [1]	-	-	-	599,753	1,474,800
Change in %	-	-	-	-	146%
M.L. Mariani [1]	-	-	-	1,225,491	1,729,227
Change in %	-	-	-	-	41%
Employees [2]	64,550	61,264	60,601	51,780	51,337
Change in %		(5)%	(1)%	(15)%	(1)%
Free cash flow (in millions of EUR)	403	306	529	817	614
Change in %		(24)%	73%	54%	(25%)
Closing share price on last business day December	30.6	20.47	27.86	34.53	40.78
Change in %		(33)%	36%	24%	18%

1 Remuneration is based on total compensation costs as reported in the table 'Remuneration and remuneration costs of individual members of the Board of Management' under section 9.2. For F.J. van Engelen Sousa and M.L. Mariani 2020 does not represent a full year.

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

The company performance shows a positive trajectory in the outcomes of the selected measures. Free cash flow has improved over the five year period from 2017 to 2021, while the Signify share price has steadily increased. The total remuneration of the Board of Management has developed in line with the company performance. Total remuneration for the CEO has remained steady since 2020. As the other members of the Board of Management were new to the Board in 2020, their remuneration comparison reflects a partial year in 2020. Annual incentive increased from 2020 driven by achievements on incentive plan metrics as detailed in sub-section 9.2.4. The performance on the long-term incentive conditions is very positive as detailed in sub-section 9.2.7, which influences ongoing grants. The development of the Signify share price has increased 18% since 2020. While free cash flow remained very solid in 2021, it declined compared to 2020. The total remuneration of the CEO reflects a decline in the pension transition allowance as detailed in sub-section 9.2.9 and an increase in annual incentive outcomes as detailed in sub-section 9.2.4.

Employee pay remains generally steady from 2020. Since 2018, a greater proportion of our employee population has shifted from Western Europe to South East Asia, Asia, and Latin America. In 2021, the proportion of our employee population in the regions was steady with a slight decrease in China and a slight increase in Latin America. The impact on average employee pay was a 1% decrease versus 2020.

9.2.10 Signify's internal pay ratio

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

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

Fiscal year	CEO total remuneration [1]	Average total compensation employees [2]	Resulting pay ratio
2021	3,230,032	51,337	63
2020	3,245,335	51,780	63
2019	2,822,104	60,601	47
2018	2,564,306	61,264	42
2017	3,048,621	64,550	47

1 Remuneration is based on total compensation costs as reported in the table 'Remuneration and remuneration costs of individual members of the Board of Management' under section 9.2.

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

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

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

The CEO pay ratio has remained steady from 2020 to 2021. This is aligned to the employee pay trend from 2020 to 2021 and results in a consistent pay ratio in 2021. Signify believes that the pay ratio over the past years aligns with Signify's profile, considering the company's industry, workforce profile and changing geographic spread.

9.2.11 Claw back and change of control

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

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

No variable remuneration was clawed-back In 2021.

9.2.12 Additional arrangements

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

9.2.13 Contractual arrangements

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

9.2.14 Severance arrangements

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

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

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

9.2.15 Loans

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

9.3 Remuneration Supervisory Board

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

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

The fees and allowances for travel are as follows:

Remuneration Supervisory Board in EUR

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

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

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

Remuneration Supervisory Board in EUR (excluding VAT)

	Membership	Committees	Other compensation [1]	Total
2021				
A.P.M. van der Poel	110,000	25,000	–	135,000
G. van der Aast	85,000	28,000	–	113,000
E. Blok	75,000	26,000	–	101,000
P. Knapp	75,000	32,500	7,500	115,000
R.S. Lane	75,000	20,500	12,500	108,000
F. Lubnau	75,000	30,000	7,500	112,500
	495,000	**162,000**	**27,500**	**684,500**
2020 [2]				
A.P.M. van der Poel	104,500	23,750	-	128,250
G. van der Aast	80,750	26,600	-	107,350
E. Blok	71,250	19,475	-	90,725
P. Knapp [3]	52,500	11,698	2,500	66,698
R.S. Lane	71,250	16,625	-	87,875
J. Lee [4]	40,000	12,000	2,500	54,500
F. Lubnau [3]	83,750	4,470	7,500	95,720
	504,000	**114,618**	**12,500**	**631,118**

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

At December 31, 2021, the members of the Supervisory Board held no Signify shares, options on Signify shares nor other Signify securities (2020: nil).

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

Supervisory Board remuneration 2017 – 2021 in EUR (excluding VAT)

	2017	2018	2019	2020 [2]	2021
A.P.M. van der Poel	135,000	140,000	137,500	128,250	135,000
G. van der Aast	109,391	118,000	113,000	107,350	113,000
E. Blok	–	74,065	95,500	90,725	101,000
P. Knapp [1]	–	–	–	66,698	115,000
R.S. Lane	128,625	121,125	121,689	87,875	108,000
F. Lubnau [1]	–	–	–	95,720	112,500

[1] Appointment as a member of the Supervisory Board in AGM 2020. The remuneration includes the observer period
[2] includes 20% COVID-19 reduction in Q2 2020.

9.4 Remuneration outlook 2022

9.4.1 Base salary

For 2022, the Supervisory Board decided to increase the base salary levels for all members of the Board of Management by 3%, in line with the budgets (collective and merit increase) allocated for the CLA population in the Netherlands.

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

9.4.2 Annual cash incentive

For 2022 the Supervisory Board has decided to select the same financial performance measures and weighting as used in previous years: comparable sales growth (30%), Adjusted EBITA (30%) and free cash flow (20%), measured as a percentage of sales.

9.4.3 Supervisory Board

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

10 Corporate governance

Introduction

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

Signify N.V. has a two-tier board structure consisting of a Board of Management 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.

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

In line with the Dutch Corporate Governance Code, other parts of the Annual Report address and explain the strategy and culture of Signify aimed at long-term value creation. Signify's strategy is described in more detail in chapter 3, Creating long-term value, of this Annual Report. Here, we also explain our value creation model which allows our stakeholders to consider the economic, social and environmental impact of our business activities. The CEO message in chapter 2 highlights how the company's strategy was executed in 2021; in this regard, please refer to chapter 4, Corporate performance and chapter 8, Supervisory Board report, of this Annual Report, which describe how the Supervisory Board is involved in the company's strategy as well as other topics such as culture and diversity & inclusion. As set out in chapter 16, Sustainability statements, section 16.3, of this Annual Report, Signify's culture is centered around its four values: Customer First, Game Changer, Greater Together and Passion for Results, and anchored by the integrity norms described in our Integrity Code. An important aspect of our culture relates to diversity & inclusion which is discussed and explained in the same chapter.

10.1 Signify organization

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

strategy, product portfolio and the production and sourcing of their products.

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

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

10.2 Board of Management

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

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

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

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

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

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

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

Appointment

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

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

Composition

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

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 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 Board of Management meets this gender diversity objective.

Remuneration

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

Conflicts of interest

Members of the Board of Management 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 conflict of interest as referred to above occurred during 2021.

Outside positions

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.

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

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

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

The Supervisory Board 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.

Composition

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

The composition of the Supervisory Board shall also be in accordance with the best practice provisions on independence of the Dutch Corporate Governance Code as well as Dutch law restrictions on the overall number of supervisory positions that a member of the Supervisory Board may hold. Each member shall be capable of assessing the broad outline of the overall management of the company.

The size of the Supervisory Board may vary over time, as considered appropriate to support its profile. In 2021, the Supervisory Board consisted of six members, all members being independent.

Diversity

The company's diversity objectives that apply to the Board of Management, see 10.2 above, also apply to the Supervisory Board. In line with the company's gender diversity objectives, the Supervisory Board currently comprises of two-third men and one-third women. As such, the Supervisory Board also meets the target of Dutch legislation recently entered into force, introducing a "grow in quota", which should result in supervisory boards of listed companies being composed of at least 1/3 men and at least 1/3 women.

Remuneration

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

Conflicts of interest

The rules for conflict of interest applicable to the members of the Board of Management, see 10.2 above, also apply to the members of the Supervisory Board. No conflict of interest as referred to occurred during 2021.

Outside positions

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

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

Independence of the Supervisory Board

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

Supervisory Board Committees

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

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

Audit Committee

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

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

Corporate Governance and Nomination & Selection Committee

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

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

Remuneration Committee

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

The Remuneration Committee also reviews the proposed remuneration of certain senior executives designated by the Supervisory Board and the remuneration of the members of the Supervisory Board and prepares proposals for adjustments, if necessary. Furthermore, the Remuneration Committee reviews and prepares proposals for the Supervisory Board concerning the corporate goals and objectives relevant to the annual incentive of members of the Board of Management, and reviews the performance of members of the Board of Management in light of those goals and objectives, and it prepares proposals for the Supervisory Board on the compensation levels of the members of the Board of Management, based on such review.

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

Digital Committee

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

relation to any of the Committee's responsibilities.

The Digital Committee meets at least four times a year.

10.4 General Meeting of Shareholders

The main powers of the General Meeting are:

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

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

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

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

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

The authorized share capital of the company amounts to EUR 6 million, divided into 300 million ordinary shares with a nominal value of one eurocent each and 300 million preference shares, also with a nominal value of one eurocent each. On December 31, 2021, the issued share capital amounted to EUR 1.28 million, divided into 128,344,238 ordinary shares and no preference shares. All shares are fully paid-up. The shares are in registered form. There are currently no limitations either under Dutch law or the company's Articles of Association, as to the transfer of ordinary shares in the share capital of the company.

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

At the AGM held on May 18, 2021, the General Meeting resolved to authorize the Board of Management for a period of 18 months, effective as of May 18, 2021, to issue shares or grant rights to acquire ordinary as well as to restrict or exclude the preemptive rights accruing to shareholders, in each case up to a maximum of 10% of the issued share capital as at May 18, 2021, 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 18, 2021, 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, 2021. 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, 2021, 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, certain bi-lateral credit agreements that have been entered into to refinance existing term loans, the Eurobonds issued by the company in 2020 and the Trade Mark License Agreement entered into with Koninklijke Philips N.V. The credit agreement includes a change of control provision which allows the lenders to cancel the commitment and declare any outstanding amounts under the agreement, immediately due and payable whereupon such amounts will become immediately due and payable. The provisions applicable to all Eurobonds issued by the company in 2020 contain a 'Change of Control Put Event'. This means that if the company experienced such an event with respect to such bonds, the company might be required to redeem or purchase the bonds at its principal amount, plus accrued and unpaid interest, if any.

10.5 External auditor

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

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

Auditor independence

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

Prohibition on non-audit services

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

10.6 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 in order 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.

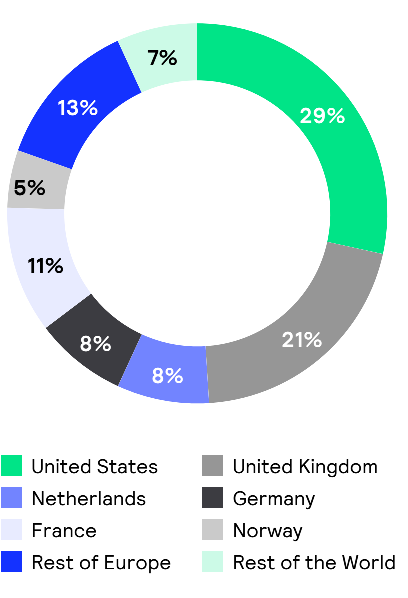
In 2021, Signify reached around 220 unique investment institutions through its IR activities and covered around 80% of its active shareholder base.

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

11.2 Shareholder base

Signify has a broad base of international shareholders, as shown in the chart below. The information is based on an independent shareholder identification analysis performed in December 2021.

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, 2021, and the related actual interests.

Signify shareholders

	% Actual interest [1]	Total % registered [2]
Pictet Asset Management	3.2%	3.2%
BlackRock, Inc	3.0%	3.2%
Allianz Global Investors GmbH	3.0%	3.0%
Amundi Asset Management	3.0%	3.0%

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

Source: AFM

II.3 Annual General Meeting of Shareholders

The 2022 Annual General Meeting of Shareholders will be held on May 17, 2022. The agenda and the explanatory notes to the agenda will be published on the company's website. The record date for the 2022 Annual General Meeting of Shareholders is April 19, 2022, after processing all settlements of that date. People registered as shareholders in the designated register on that date, and who have registered for the meeting, will be entitled to attend and vote in the meeting. Depending on the developments around COVID-19, Signify may decide that the AGM will be held virtually.

II.4 Capital allocation

Capital allocation policy

Signify plans to pay an increasing annual cash dividend per share year on year.

The company is on track to achieve a leverage ratio of reported net debt/EBITDA of 1x by the end of 2022. This now includes the cash outflow from the intended Fluence acquisition, and the 2022 cash inflow from its operations and the continued rationalization of the company's real estate portfolio.

Finally, Signify will continue to invest in organic and inorganic growth opportunities in line with its strategic priorities.

Dividend policy

Signify plans to pay an increasing annual cash dividend per share year on year. The payment of dividends, if any, and the amounts and timing thereof depend on several factors, including future sales, profits, financial conditions, general economic and business conditions and prospects. Other factors that the Board of Management may deem relevant, as well as other legal and regulatory requirements, 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 1.45 per share, in cash, from the net income for full-year 2021, in line with its dividend policy of paying an increasing cash dividend per share every year.

The dividend payment is subject to approval by the Annual General Meeting of Shareholders on May 17, 2022. Further details will be provided in the agenda for the AGM. Dividend in cash is, in principle, subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to shareholders.

Dividend dates

Ex-dividend date	19 May 2022
Dividend record date	20 May 2022
Dividend payment date	31 May 2022

Share repurchases for LTI hedging

During 2021, Signify repurchased 1,700,000 shares in the open market for a total consideration of EUR 72 million to cover obligations arising from its long-term incentive performance share plan and other employee share plans. These repurchases took place in the period from February to May 2021.

In addition, 2021 includes a cash outflow of EUR 8 million for dividend withholding tax, related to the company's purchase of treasury shares for capital reduction purposes, and an outflow of EUR 12 million which is related to repurchases under the company's employee share plans.

II.5 Debt info

During 2021, Signify had a net reduction in its long-term loans of EUR 354 million. This included the committed repayment of a EUR 350 million short-term loan before the end of 2021.

As of December 31, 2021, the company had long-term loans of EUR 280 million and USD 225 million, which are maturing in December 2024 and January 2025 respectively. In addition, the revolving credit facility (RCF) of EUR 500 million was extended to January 2027.

The term loans and RCF agreement include a financial covenant, which requires that Signify maintains a net leverage ratio of no greater than 3.5x. The net leverage ratio may

temporarily increase to 4.0x within 12 months of the closing of material acquisitions. The covenant does not apply if Signify has at least one investment grade rating. This is currently the case, as Signify has two investment grade ratings.
At year-end 2021, Signify had EUR 675 million of fixed-rate notes, due in May 2024 with an annual coupon of 2.000%, and EUR 600 million of fixed rate notes, due in May 2027 with an annual coupon of 2.375%.

More information about our debt position can be found here.

II.6 Share performance

In 2021, Signify re-entered the AEX Index. The Euronext Amsterdam stock exchange selected Signify for inclusion in the AEX Index from March 22, 2021. Signify was previously included in the AEX Index from March 19, 2018 until March 15, 2019.

In the first part of 2021, Signify's share price outperformed the DJ Europe (excl. UK) technology index, the S&P capital goods index and the AEX index. In the second part of the year, the share price underperformed the aforementioned indices. This resulted in a full-year share price increase of 18%, compared to a 28% increase of the AEX index, a 31% increase of the DJ Europe (excl. UK) technology index and a 36% increase of the S&P capital goods mid-cap index. The market capitalization at year-end 2021 was EUR 5.2 billion and the free-float was 97%.

II.7 Financial calendar

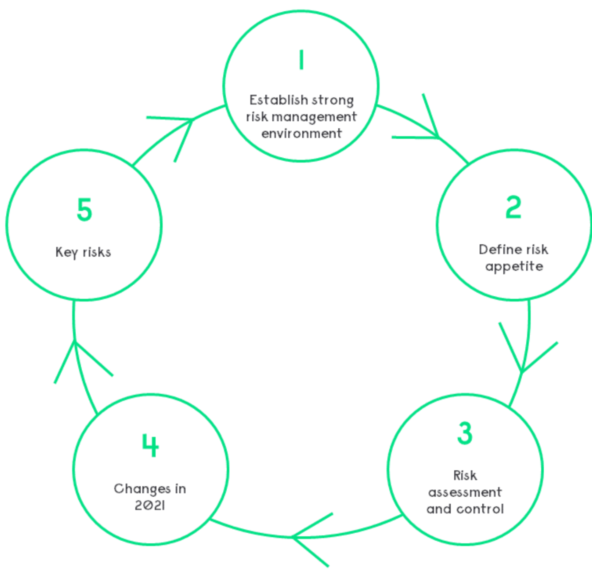
Financial calendar 2022

Report/Activity	Date
Q1 2022 financial report	April 29
Annual General Meeting of Shareholders 2022	May 17
Q2 and first-half 2022 financial report	July 29
Q3 2022 financial report	October 28

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. This is done by integrating management control into the daily operations, by ensuring compliance with legal requirements and by safeguarding the integrity of the company's financial reporting and its related disclosures. The components of our risk management process are listed below.



12.1 Establish strong risk management environment

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

Corporate governance

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

The Board of Management is responsible for managing the risks associated with the company's activities and for defining the company's risk appetite. The Board of Management is assisted by the company's leadership team, which participate on a quarterly basis in audit risk and control meetings to identify critical risks and to review progress on the implementation of risk responses. The Audit Committee of the Supervisory Board provides oversight for the system of internal business controls and risk management. Internal audits, external audits or management self-assessment are reported to and discussed by the Audit Committee on a quarterly basis. An in-depth description of the company's corporate governance structure can be found in chapter 10, Corporate governance, 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 (i) integrated management control of the company's operations in order to ensure the integrity of the financial reporting and related disclosure, and (ii) compliance with applicable laws and regulations. The company has designed its BCF based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The company regularly evaluates and improves its BCF to align with business dynamics and good practices.

Integrity code

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

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

To increase the level of awareness and to create global engagement, the company has established a network of Compliance Officers in countries where the company has a presence, on each significant site, and at

Division, Market Group and Functional level. The activities and responsibilities of this network are focused on providing expertise and support on Integrity code-related matters to managers and employees.

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 2021 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 a medium strategic risk appetite and is prepared to take some reasonable strategic risks, balancing the need to capture return from opportunities and manage risks.

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

Operational risks

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

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

Compliance risks

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

Financial risk

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

12.3 Risk assessment and control

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

Strategic risk

The company leadership team identifies the key risks, as part of the strategic review process. In a subsequent workshop the leadership team ranks the risks based on impact, likelihood, risk criticality and control effectiveness. As part of the strategic review cycle, initiatives are defined to mitigate the risks. Owners are assigned for each of the strategic initiatives, and they are then accountable for ensuring adequate risk mitigation and for monitoring the implementation of mitigation measures. Each quarter the key risks are discussed during the audit and risk committee meeting. Reported risks and opportunities are analyzed for potential cumulative effects and are aggregated at Division, Market Group and company level.

Operational risk

Risks are reported on a regular basis as part of the business performance reviews or, for specific topics, through dedicated risk committees. In addition, on an annual basis the top risks are identified by company leadership. Relevant risks, including those associated with business opportunities, are

prioritized in terms of potential impact and likelihood, considering quantitative and/or qualitative aspects, and are reviewed together with the board of management. On a quarterly basis, risks and controls are reviewed with the Divisions, Market Groups and specific Functions in the audit risk committee.

Compliance risk

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

With an annual Integrity code self-assessment process forming part of 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 2021, employees were required to complete one or more e-learnings on the Integrity code and related legal compliance domains. Specific target groups were required to participate in recurring (virtual) classroom trainings. In addition, each year Finance and Procurement employees are asked to sign off on the Financial and the Procurement Codes of Ethics respectively. All executives are asked to sign off on the Integrity code annually to confirm their awareness of and compliance with the code. Violations of the Integrity code will result in disciplinary action, up to and including dismissal.

Financial risk

The company has implemented a global standard for 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, whereby business process owners engaged in the key financial processes perform self-assessments on several key controls, document the results, and take corrective action where necessary. ICS supports business and functional management in a periodic cycle of assessment and monitoring of the control environment.

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

The global tax strategy and policy are aligned with our business and sustainability strategies and are published on the company's website. The Board of Management, enabling functions, Divisions and Markets are advised on tax matters by Group tax to ensure both the needs of the business and of tax are balanced. The company also participates in (inter)national groups of experts to represent its interests. In addition, the company has corporate requirements for the management of the company's legal entities in line with tax legislation.

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

12.4 Changes in 2021

The process to identify the key risks for the company was further improved in 2021. In previous years the risk workshop and the strategic review process were initiated separately, and the outcomes combined mid-way through the strategic review process. In 2021 the two processes were fully integrated from the start.

In 2021 the integration of Cooper Lighting in the internal control framework was completed.

12.5 Key Risks

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

Risk	Risk description	Mitigation actions
Technological change	The transition to LED lighting is characterized by the increasing importance of digital capabilities and technology, such as the adoption of connected lighting systems which may drastically change the business environment. At present, a relatively small part of the worldwide installed base of light points is connected. A cornerstone of Signify's strategy is to focus on and invest in its connected lighting offerings, such as its InterAct offerings for the professional market and Hue, WiZ smart lighting offerings for the consumer market. Signify also aims to develop new business models, in particular through value-added service offerings. The risk is that the extent and speed of adoption of connected lighting systems and services does not develop as anticipated, or that Signify is unable to successfully implement its strategy in connected lighting.	Signify is actively developing and investing in technology platforms and software applications to bring (more advanced) connected lighting systems to the market. Part of this strategy is to strongly focus on the interoperability of its applications and to incorporate different connectivity technologies in its connected lighting portfolio. thereby addressing different needs in the market. Additionally, Signify plays a leading role in developing the market for connected lighting systems, in building awareness of the benefits of connected lighting, and in forging partnerships and alliances. Finally, in order to capture this new value opportunity, Signify's systems and product teams are developing innovative services around connected lighting.
Competition	The LED lighting market has attracted many new competitors (particularly from Asia) with low-priced offerings and is at present highly competitive. This has led to increasing commoditization of offerings as well as price pressure on LED products. This may impact revenues and profitability, in particular, if Signify fails to manage costs. In the area of connected lighting, the risk is that non-lighting players with broad technology platforms may enter and disrupt the lighting market.	To counter aggressive commoditization by Asian players, Signify`s strategy is to create tiered offerings, including B-brand and private label. Further, the company continuously invests in innovation, strengthens its digital (sales) capabilities and runs cost-saving initiatives to keep its cost base competitive. Also, Signify can make use of the Philips brand which has a strong global reputation and brand preference to drive sales. In general, Signify has a global sales and distribution network which would be difficult for a competitor to replicate. This network allows the company to quickly roll-out innovative products and services on a global scale.

Risk	Risk description	Mitigation actions
Global political and economic instability - COVID-19	There continues to be significant instability in the global economy and in the global political landscape. Polarization and trade protectionism as well as political changes may disrupt our operations and, ultimately, our sales. Such developments may impact Signify significantly as it has commercial activities and operations in almost every country. Adverse economic conditions may result in lower customer demand. In particular, the impact of the COVID-19 pandemic continued to have an adverse effect on the company's sales and results in 2021, both due to depressed professional demand and due to unprecedented supply chain disruptions, which impaired the company's ability to meet existing customer demand. Looking ahead, uncertainty and volatility remain regarding the continued impact of (mutations of) COVID-19, and therefore the recovery of the general lighting market to (pre-COVID) 2019 levels. This is relevant to Signify as a large part of its business is exposed to the construction and renovation activity, which has been impacted significantly by government lockdowns, and hence may take longer to recover.	At the macro level, Signify actively engages in global forums focused on the benefits of globalization. Signify is also committed to highly credible industry organizations globally to support the stabilization of global trade. In order to minimize the impact of instability on its business, Signify closely follows and reviews (geo)political and economic developments and takes these into account in both its short- and medium-term operational planning. To mitigate potential supply chain inefficiencies and tariff impacts arising from geopolitical tensions and trade protectionism, Signify leverages its global (manufacturing) footprint and makes adjustments to its sourcing base when needed. To address the continued impact of COVID-19 uncertainty and its supply chain disruption, actions have been launched throughout the organization to secure the supply of components and to maximize the delivery of existing customer orders.
Supply disruption	Signify increasingly depends on external suppliers and to a large extend, on the production of components and LED products from Asian countries. The risk of this higher dependency is that suppliers are not able to deliver (raw) materials, components or services on time for Signify to meet customer demand in a timely manner. Next to this, the production and shipping of products and components could be interrupted by conflicts, natural disasters, such as earthquakes, typhoons and floods caused by climate change, or pandemic diseases. Finally, Increasing geopolitical tensions and trade protectionism, such as local manufacturing requirements, may disrupt the company's operations. This may limit the company's ability to leverage and draw efficiencies from its global (manufacturing) footprint. Due to COVID-19, in 2021 the company was, and continues to be, impacted by shortages of electronic components and logistics disruptions. Moreover, the company continues to see a volatile market with, in some cases, sharp increases in the costs of (raw) materials and key components, which may be difficult to fully pass on to customers.	Signify has built a supplier risk plan in which risky suppliers are identified using criteria that take into account the geographical location of the supplier, the technologies and processes used. In addition, Signify is enhancing regional supply capabilities to increase the share of components needed for manufacturing products for a particular region are sourced regionally, as opposed to being sourced from remote locations. Regular risk assessments are carried out at individual plant level, including the risks related to natural catastrophes and water scarcity. These assessments are also performed at locations of business-critical suppliers and increasing strategic inventories. Signify requires its sites to have robust business continuity plans for any large-scale events which can severely impact the business. These plans include sourcing from alternative suppliers and increasing strategic inventories. Cost inflation due to the shortage of components, containers or labor is offset through a combination of cost savings and market price increases. The level of pricing moves is benchmarked versus key competitors.

Risk	Risk description	Mitigation actions
Innovation	The high speed of innovation and the increasing importance of digital technology in the general lighting industry requires Signify to continuously spend considerable resources on developing new products and solutions. It also requires developing different capabilities and competences to commercialize its innovations successfully. In particular, this is important in a fast-changing market in which the company must continuously address the needs of local customers to introduce locally relevant new products and solutions ahead of competition. Failure to bring new products and solutions to the markets in a timely fashion and commercialize its innovations successfully would lead to the expected benefits of these investments may not outweigh the costs to the company, and would hence be detrimental to both the top and bottom line of the company.	Signify invests significantly in its R&D activities. It has dedicated R&D activities to support its divisions in developing and realizing near-term innovation roadmaps, and to develop longer-term innovations with a focus on areas such as connected lighting systems, software and digital applications. Signify adapted its business structure to enable a stronger customer focus and enhanced specialization to further increase execution speed. Finally, dedicated go-to-market channels and tailored marketing approaches are in place with the aim to successfully introduce new offerings commercially. The return on innovation investments is reviewed on a quarterly basis, including speed to market, efficiency of investment and sales development versus plan.
Cyber-attacks and security breaches	As Signify becomes more digitalized, more devices and systems are connected online. This increases cyber security risk across enterprise IT, Operational Technology (OT) and our products and solutions that are delivered with Internet of Things (IoT) capabilities and accompanying (cloud-based) software applications. Should a successful cyber-attack materialize, the processes, services and systems that allow the organization to continue to operate could be impacted resulting in operational disruption. Further, a cyber-attack could cause a data breach where sensitive, protected, personal or confidential data held by Signify is leaked or stolen.	Signify develops its products and software applications and secures the ecosystem in conformity to security standards and best practices (ISA/IEC62443, ISO2700x, NIST). Cyber risk is reviewed by the Board of Management and by the Supervisory Board on a periodic basis. A dedicated cyber security team scans external developments, identifies inherent risks, and proposes plans to limit residual risk as much as possible. The Security Board aligns on the level of acceptable residual risk. Each year mandatory security and data protection & privacy awareness trainings are conducted. Security measures are in place to detect attackers and to minimize the risk of them causing damage to systems and gaining access to critical data, systems and services. Business continuity plans are in place in the event of non-availability of IT systems and Manufacturing sites. These business continuity plans are tested periodically.

Risk	Risk description	Mitigation actions
Digitalization	It is a strategic priority of Signify to digitalize its go-to-market approach, its processes, and its offers. As such, digitalization is a key opportunity to provide higher customer service levels, more attractive customer offers, and to continue optimizing productivity through more efficient workflows. Failure to keep up with ongoing digitalization and adapt to new technologies will lead to a gradual loss of both market share and earnings.	Signify has established a Digitalization roadmap for customer interfaces, processes and offers. IT architecture, employee re-skilling and data governance have been identified as key enablers. Progress against the established roadmap is closely followed-up by the Digital Committee, a sub-committee from the Supervisory Board, and by the Digital Board, staffed by high level company executives. Several key programs have been initiated under the digitalization umbrella, and the company's investment in digitalization has been increased significantly. Digital and IT, previously two separate functions within the company, have been brought under the leadership of a new Chief Digital and Information Officer, responsible for improved alignment and acceleration of the digitalization journey.
New organizational capabilities	Signify needs to build the capabilities and culture required to transform its business and deliver on its strategy, including the ambition to grow its connected lighting business and grow in new areas such as agricultural, solar, UV-C lighting and 3D printing. New capabilities are particularly relevant in the areas of digital, software development, marketing and consultative selling. Next to this, bringing advanced connected lighting offerings to the market requires highly specialized (technical) personnel. Failure to successfully develop these new and different capabilities may have a significant impact on the company achieving its long-term strategic goals.	Signify invests in the professional development of its employees through learning initiatives as well as through dedicated talent management programs which identify top talents early in their career. In addition, actions were launched to upscale commercial skills and capabilities in cooperation with learning@signify Academy. Next, talent acquisition programs are in place to attract new employees with a specific focus on those (technical) areas where the company sees capability needs that cannot be developed internally. Finally, through M&A projects of various size, new capabilities are brought to the company, with retention programs being part of the due diligence and acquisition approval process.
Acquisitions and integrations	Selected acquisitions have been, and are, an important part of Signify's strategy. These acquisitions are focused on growing the business, strengthening its supply chain or acquiring complementary technologies or new capabilities. Acquisitions always entail integration risk which in turn could result in (cost) synergies, strategic advantages and economies of scale, being delayed or not fully realized.	Signify stresses the importance of any potential acquiree matching its business model and strategic direction. In the due diligence process it makes sure to involve the right people from the organization, considering all vital aspects of the business. Immediately after any acquisition, a multidisciplinary team with members from both organizations is put together to ensure a smooth integration of the new business, both from a top line synergy, a cost synergy, and a cultural integration point of view.

Risk	Risk description	Mitigation actions
Climate change	The impact of climate change generates opportunities and challenges for Signify's existing and future lighting products and solutions portfolio. And, with a global footprint, Signify's manufacturing sites and supply chain are exposed to risks related to climate change. In line with that, Signify is seeing continued and increased attention to climate change from all sectors of society. This attention has led to additional regulations designed to reduce greenhouse gas (GHG) emissions and the adoption of more energy-efficient products and solutions. As lighting represents a significant portion of global electricity consumption, the lighting industry will need to adapt to changing environmental regulations. The inability to meet customer expectations related to the energy efficiency potential of the company's LED lighting products and solutions could adversely affect the company's reputation and brand. Additionally, understanding the risks posed by climate change, and how to improve business resilience through climate change mitigation and adaptation accordingly, is imperative to secure the company's longer term success.	As part of its Brighter Lives, Better World 2025 sustainability program, Signify is taking measures to manage climate risks and adapt its businesses. Since 2020, Signify is carbon neutral in its operations and sources 100% renewable electricity. Sustainability is an integral part of Signify's 5 Frontiers strategy. Its pillar Growth for sustainability aims to address global challenges by focusing on sustainable growth areas, based on low-carbon technological innovation: Climate action, Circular economy, Food availability, Safety & security, and Health & well-being. As a result, Signify's product portfolio is well-positioned to anticipate risks and opportunities related to climate change. Following the recommendations and guidance of the Task Force on Climate-Related Financial Disclosures, Signify conducts ongoing climate risk assessments in line with the four core elements of governance, strategy, risk management, and metrics and targets (for details, please refer to the Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads). At the end of 2021, Signify was on track to achieve its ambitious Brighter Lives, Better World 2025 commitments (for details, please refer to the chapter 16, Sustainability statements, of this Annual Report).
Concentration risk	Signify's overall risk profile changed with the acquisition of US-based Cooper Lighting in 2020. As a result, Signify is more exposed to developments in the professional lighting market and in particular developments in the North American market. Therefore, going forward, any developments are expected to have a bigger impact on the company's results, operations and prospects, and, in particular regarding to potential negative impacts of those developments, it may have a reduced ability to offset negative impacts through its other business activities and markets in which it is active.	The increased importance of the US is recognized and taken into consideration in the annual strategic planning process and risk assessment. Resources are allocated in line with both the size of the business and the future growth potential. Not only are we focused on getting the right talent to drive the success of the US business, but also the Divisions and Functions are expected to spend a disproportionate amount of time and energy on ensuring a successful US business. Finally, in order to address both the importance of the US business and the higher risk of global disruption, dedicated support plans have been and are being worked out for the US.

13 Statement of the Board of Management

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

To the best of our knowledge:

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

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

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

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

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

On the basis of the above, we confirm that:

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

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

February 22, 2022

Board of Management
Eric Rondolat
Javier van Engelen
Maria Letizia Mariani

Corporate statements

Table of contents

Corporate statements

- 14 Consolidated financial statements 82
  - 14.1 Consolidated statement of income 83
  - 14.2 Consolidated statement of comprehensive income 84
  - 14.3 ` Consolidated statement of financial position 85
  - 14.4 Consolidated statement of cash flows 87
  - 14.5 Consolidated statement of changes in equity 89
  - 14.6 Notes to the Consolidated financial statements 90
    - 1 Basis of preparation 90
    - 2 Significant accounting policies 92
    - 3 Information by segment and main country 101
    - 4 Income from operations 102
    - 5 Employee benefit expenses 102
    - 6 Depreciation, amortization and impairment 103
    - 7 Other business income and expenses 103
    - 8 Financial income and expenses 103
    - 9 Income taxes 104
    - 10 Earnings per share 107
    - 11 Acquisitions and divestments 107
    - 12 Interests in entities 107
    - 13 Property, plant and equipment 108
    - 14 Leases 109
    - 15 Intangible assets 110
    - 16 Objectives, policies and processes for managing capital 112
    - 17 Inventories 112
    - 18 Trade and other receivables 112
    - 19 Trade and other payables 113
    - 20 Other assets 113
    - 21 Other liabilities 113
    - 22 Equity 113
    - 23 Debt 114
    - 24 Provisions 116
    - 25 Post-employment benefits 117
    - 26 Related party transactions 119
    - 27 Share-based compensation 119
    - 28 Information on remuneration 121
    - 29 Financial risk management 122
    - 30 Events after the balance sheet date 125
- 15 Signify N.V. financial statements 127
  - 15.1 Statement of income 128
  - 15.2 Statement of financial position before appropriation of results 129
  - 15.3 Statement of changes in equity 130
  - 15.4 Notes to the Company financial statements 131
    - A Statement of income 131
    - B Audit fees 131
    - C Financial assets 131
    - D Shareholders' equity 132
    - E Debt 133
    - F Employees 133
    - G Contingent liabilities not appearing in the balance sheet 133
    - H Events after the balance sheet date 133
- 16 Sustainability statements 135
  - 16.1 Approach to sustainability reporting 135
  - 16.2 Sustainable Innovation 140
  - 16.3 Brighter Lives 141
  - 16.4 Better World 154
  - 16.5 EU Taxonomy 162
- 17 Combined independent auditor's report 163
- 18 Reconciliation of non-IFRS financial measures 176
- 19 Definitions and abbreviations 180
- 20 Forward-looking statements and other information 184

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 2021 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 an independent auditor's report on the Consolidated financial statements and the Company financial statements, in accordance with Dutch law, including the Dutch standards on auditing, of Signify N.V., which is set out in chapter 17, Combined independent auditor's report, of this Annual Report.

14.1 Consolidated statement of income

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

	Note	2020	2021
Sales	3	6,502	6,860
Cost of sales		(4,004)	(4,189)
Gross margin		**2,499**	**2,671**
Selling, general and administrative expenses		(1,781)	(1,882)
Research and development expenses		(307)	(286)
Impairment of goodwill	15	–	–
Other business income	7	12	19
Other business expenses	7	(7)	(8)
Income from operations	4	**416**	**514**
Financial income	8	18	33
Financial expenses	8	(72)	(57)
Results from investments in associates		–	–
Income before taxes		**362**	**490**
Income tax expense	9	(27)	(83)
Net income		**335**	**407**
Attribution of net income for the period:			
Net income (loss) attributable to shareholders of Signify N.V.		325	397
Net income (loss) attributable to non-controlling interests		9	9
Earnings per common share attributable to shareholders	10		
Weighted average number of ordinary shares outstanding used for calculation (in thousands):			
• Basic		126,223	124,967
• Diluted		129,692	128,646
Net income attributable to shareholders per ordinary share in EUR:			
• Basic		2.58	3.18
• Diluted		2.51	3.09

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

	2020	2021
Net income	**335**	**407**
Pensions and other post-employment plans:		
• Remeasurements	11	20
• Income tax effect on remeasurements	(1)	(4)
Total of items that will not be reclassified to the Income statement	**11**	**16**
Currency translation differences:		
• Net current period change, before tax	(395)	291
• Income tax effect	–	–
Net investment hedge:		
• Net current period change, before tax	42	(22)
• Income tax effect	1	–
Cash flow hedges:		
• Net current period change, before tax	31	(26)
• Income tax effect	(7)	6
Total of items that are or may be reclassified to the Income statement	**(328)**	**249**
Other comprehensive income	**(318)**	**265**
Total comprehensive income	**17**	**671**
Total comprehensive income attributable to:		
• Shareholders of Signify N.V.	16	650
• Non-controlling interests	1	22

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	2020	2021
Non-current assets			
Property, plant and equipment	3, 13	708	724
Goodwill	3, 15	2,251	2,464
Intangible assets, other than goodwill	3, 15	775	730
Investments in associates	12	12	12
Financial assets	29	55	58
Deferred tax assets	9	473	481
Other assets	20	60	67
Total non-current assets		**4,334**	**4,536**
Current assets			
Inventories	17	885	1,410
Other assets	20	171	192
Derivative financial assets	29	104	58
Income tax receivable	9	39	24
Trade and other receivables	18	1,140	1,183
Cash and cash equivalents	29	1,033	851
Assets classified as held for sale		3	3
Total current assets		**3,376**	**3,720**
Total assets		**7,710**	**8,256**

14.3 Consolidated statement of financial position (continued)

		2020	2021
Equity			
Shareholders' equity	22	2,196	2,459
Non-controlling interests	12	124	138
Total equity		**2,321**	**2,597**
Non-current liabilities			
Debt	23	2,221	1,931
Post-employment benefits	25	390	363
Provisions	24	224	215
Deferred tax liabilities	9	22	27
Income tax payable	9	108	118
Other liabilities	21	159	182
Total non-current liabilities		**3,123**	**2,835**
Current liabilities			
Debt, including bank overdrafts	23	86	77
Derivative financial liabilities	29	44	44
Income tax payable	9	20	16
Trade and other payables	19	1,731	2,334
Provisions	24	172	140
Other liabilities	21	213	213
Liabilities from assets classified as held for sale		–	–
Total current liabilities		**2,266**	**2,824**
Total liabilities and total equity		**7,710**	**8,256**

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	2020	2021
Cash flows from operating activities			
Net income		335	407
Adjustments to reconcile net income to net cash provided by operating activities:		606	580
• Depreciation, amortization and impairment of non-financial assets	6	332	312
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates		–	–
• Net gain on sale of assets	7	(1)	(13)
• Net interest expense on debt, borrowings and other liabilities	8	31	26
• Income tax expense	9	27	83
• Additions to (releases of) provisions	24	152	133
• Additions to (releases of) post-employment benefits	25	20	18
• Other items		46	21
Decrease (increase) in working capital:		239	(2)
• Decrease (increase) in trade and other receivables	18	211	1
• Decrease (increase) in inventories	17	44	(458)
• Increase (decrease) in trade and other payables	19	(50)	479
• Increase (decrease) in other current assets and liabilities		35	(24)
Increase (decrease) in other non-current assets and liabilities		15	26
Utilizations of provisions	24	(162)	(187)
Utilizations of post-employment benefits	25	(35)	(34)
Net interest and financing costs paid		(33)	(27)
Income taxes paid		(73)	(59)
Net cash provided by (used for) operating activities		**891**	**704**
Cash flows from investing activities			
Net capital expenditures:		(75)	(91)
• Additions of intangible assets	15	(32)	(34)
• Capital expenditures on property, plant and equipment	13	(67)	(84)
• Proceeds from disposal of property, plant and equipment		25	27
Net proceeds from (cash used for) derivatives and other financial assets		(4)	29
Purchases of businesses, net of cash acquired	11	(1,303)	(30)
Proceeds from sale of businesses, net of cash disposed of		2	–
Net cash provided by (used for) investing activities		**(1,379)**	**(91)**

14.4 Consolidated statement of cash flows (continued)

	Note	2020	2021
Cash flows from financing activities			
Dividend paid		(17)	(354)
Proceeds from issuance of debt	23	3,744	633
Repayment of debt	23	(2,932)	(1,064)
Purchase of treasury shares		(38)	(92)
Net cash provided by (used for) financing activities		**757**	**(876)**
Net cash flows		**269**	**(263)**
Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts		(80)	80
Cash and cash equivalents and bank overdrafts at the beginning of the period		840	1,030
Cash and cash equivalents and bank overdrafts at the end of the period	29	**1,030**	**847**

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

14.5 Consolidated statement of changes in equity

Consolidated statement of changes in equity in millions of EUR

	Share capital	Share premium	Retained earnings	Currency translation differences	Cash flow hedges	Treasury shares	Total share-holders' equity	Non-controlling interests	Equity
Balance as at January 1, 2020	**1**	**2,195**	**53**	**7**	**(7)**	**(68)**	**2,181**	**142**	**2,324**
Net Income	–	–	325	–	–	–	325	9	335
Other comprehensive income (loss)	–	–	11	(343)	24	–	(309)	(9)	(318)
Total comprehensive income (loss)	**–**	**–**	**336**	**(343)**	**24**	**–**	**16**	**1**	**17**
Movement in non-controlling interests	–	–	–	–	–	–	–	1	1
Dividend distributed	–	–	–	–	–	–	–	(20)	(20)
Purchase of treasury shares	–	–	–	–	–	(38)	(38)	–	(38)
Delivery of treasury shares	–	(30)	(2)	–	–	32	–	–	–
Share-based compensation plans	–	34	–	–	–	–	34	–	34
Income tax share-based compensation plans	–	2	–	–	–	–	2	–	2
Balance as at December 31, 2020	**1**	**2,201**	**387**	**(337)**	**17**	**(74)**	**2,196**	**124**	**2,321**
Balance as at January 1, 2021	**1**	**2,201**	**387**	**(337)**	**17**	**(74)**	**2,196**	**124**	**2,321**
Net Income	–	–	397	–	–	–	397	9	407
Other comprehensive income (loss)	–	–	16	257	(20)	–	253	12	265
Total comprehensive income (loss)	**–**	**–**	**413**	**257**	**(20)**	**–**	**650**	**22**	**671**
Movement in non-controlling interests	–	–	–	–	–	–	–	–	–
Dividend distributed	–	–	(343)	–	–	–	(343)	(8)	(351)
Purchase of treasury shares	–	–	7	–	–	(83)	(77)	–	(77)
Delivery of treasury shares	–	(60)	28	–	–	32	–	–	–
Share-based compensation plans	–	31	–	–	–	–	31	–	31
Income tax share-based compensation plans	–	2	–	–	–	–	2	–	2
Balance as at December 31, 2021	**1**	**2,174**	**491**	**(80)**	**(2)**	**(126)**	**2,459**	**138**	**2,597**

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

14.6 Notes to the Consolidated financial statements

In millions of EUR unless otherwise stated

1 Basis of preparation

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

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

Basis of preparation

The Consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and with the statutory provisions of Part 9, Book 2 of the Dutch Civil Code. The Consolidated financial statements are prepared by the Board of Management of the Company and authorized for issue on February 22, 2022, and will be submitted for adoption to the Annual General Meeting of Shareholders on May 17, 2022. The Consolidated financial statements have been prepared on a going concern basis.

Basis of measurement

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

Functional and presentational currency

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

Critical accounting judgments and key sources of estimation uncertainty

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

These estimates and judgments are evaluated on an ongoing basis and are based on historical experience, current and expected future outcomes, third-party evaluations and various other assumptions that are considered reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities, as well as identifying and assessing the accounting treatment with respect to commitments and

contingencies. Signify revises material estimates if changes occur in the circumstances or there is new information or experience on which an estimate was or can be based.

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

Climate-related matters

The impact of climate change generates opportunities as well as challenges for Signify's existing and future lighting products and solutions portfolio. Sustainability is an integral part of Signify's 5 Frontiers strategy. Its strategic pillar, Growth for Sustainability, aims to address global challenges by focusing on sustainable growth areas, based on low-carbon technological innovation: Climate action, Circular economy, Food availability, Safety & security, and Health & well-being. As a result, Signify's product portfolio is well-positioned to anticipate risks and opportunities related to climate change.

Digital Solutions and Digital Products

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

Conventional Products

The conventional market is expected to continue to decline in the coming years due to the ongoing adoption of LED lighting technologies and legislation banning certain technologies. The Division maintains a legislation-compliant portfolio and invests in remaining opportunities such as UV-C light sources and conventional horticulture lighting. The Division is successfully executing its last company standing strategy, strengthening its leadership position, increasing customer and employee Net Promoter Scores and being cash-contributing.

Developments on climate-related matters for the Division were considered in preparing the consolidated financial statements. Specifically, the key assumptions used in the annual goodwill impairment test for Conventional Products have taken into account external market assumptions, including potential phase out of products due to market conditions and legislation likely to be ratified. In the 2021 annual goodwill test, the estimated recoverable amount of Conventional Products exceeded its carrying value, therefore no impairment loss was recognized. For further details, refer to Note 15, Intangible assets.

Impact of supply chain disruptions

During the year, component and container shortages as well as other logistics challenges impacted the global supply chain. As demand remained healthy, this resulted in a part of the orders being delayed. As a result, these challenges affected Signify's sales and inventory levels. Signify believes that these unprecedented supply chain issues are transitory and is confident in its ability to convert demand into sales growth as the situation stabilizes.

The increased inventory levels did not lead to a material change in the value allowance for inventory. The impact of supply chain disruptions and its recovery has been taken into account as part of the assumptions in the annual goodwill impairment test. For further details, refer to note 15, intangible assets.

Impact of the COVID-19 pandemic

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

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

Further information and considerations regarding areas of significant judgments and estimates have been included below.

Liquidity and risk management

Signify continues to place a great deal of focus on actions to preserve liquidity. These measures included, among others, ongoing savings in selling expenses, travel costs, procurement costs and continued rigorous management of working capital. During 2021, Signify also implemented actions to make its central organization leaner and to improve its performance culture.

Goodwill

The annual impairment test performed in the fourth quarter did not result in an impairment loss being recognized. The key assumptions of the goodwill impairment test include sales growth rates, EBITA and the rates used for discounting the projected cash flows. All key assumptions were updated to reflect management’s current best estimates, including the recovery of the global lighting market from the COVID-19 pandemic and supply chain disruptions. For further details, refer to note 15, Intangible assets.

Intangible assets, other than goodwill

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

Inventories

Signify’s inventories are stated at the lower of cost or net realizable value. In determining the appropriate level of value allowance, inventory health in certain businesses and markets due to COVID-19 were considered. In addition, current and potential excess inventory levels were analyzed, incorporating revised expectations of future demand for these items. Compared to the allowance as of December 31, 2020, no material change in the value allowance for inventory was identified as a result of these procedures.

Trade receivables

According to its accounting policy, Signify calculates the lifetime expected credit loss for Trade receivables utilizing a matrix model per country, where recoverability data and default probability per country are used as future-looking elements which address COVID-19 impact. Because the collection of Trade receivables was strong in 2021, Signify's expected credit loss allowance as of December 31, 2021, did not change materially when compared to the allowance as of December 31, 2020. Furthermore, the allowance for individually impaired receivables did not change materially compared to the allowance as of December 31, 2020.

Post-employment benefits

COVID-19 impacted underlying assumptions of post-employment liabilities such as the interest rates and investment performance. Signify performed an updated quantification of the net defined benefit liability as at December 31, 2021, based on the most recent assumptions. Details of the underlying assumptions used can be found in note 25, Post-employment benefits.

Government support

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

Deferred taxes

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

Changes in accounting policy

New and amended standards adopted

Signify has applied the following amendments for the first time to its annual reporting period commencing January 1, 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2
- Amendment to IFRS 16 - COVID-19 Related Rent Concessions beyond 30 June 2021
- Amendment to IAS 16 - Proceeds before intended use of property, plant and equipment

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

New and amended standards not yet adopted

Several new standards or amendments to existing standards have been published that are mandatory for reporting periods commencing on or after January 1, 2022. With the exception of the amendment to IAS 16 Property, Plant and Equipment, these standards have not been adopted early by Signify. The new standards or amendments are not expected to have a material impact on Signify in the current or future reporting periods and on foreseeable future transactions.

2 Significant accounting policies

General

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

Basis of consolidation

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

Business combinations

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

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

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

Investments in associates

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

Foreign currency translation

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

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

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

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognized at the point in time when the customer obtains control over the goods. For standard sale of products, control generally passes to the customer when the product is delivered and accepted, depending on the delivery conditions and incoterms. For products for which a right to return exists during a defined period, revenue is recognized by considering the historical pattern of actual returns. Return policies are typically based on customary return arrangements in local markets.

Sale of services

Signify accounts for cloud-enabled services, extended warranties and lifecycle services as separate performance obligations. Control over these services is transferred over time and revenue is recognized, in most cases, on a straight-line basis over the duration of the service period.

Transaction price

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

For contracts with multiple performance obligations, the total consideration of the contract is allocated to all distinct performance obligations in the contract based on their stand-alone selling prices. Stand-alone selling prices are determined based on other stand-alone sales transactions that are directly observable, when possible. However, observable prices are not

available for all performance obligations. If no direct observable prices are available, the stand-alone selling price is normally based on the expected cost plus a margin approach.

The transaction price may be variable due to discounts, rebates or similar arrangements. Revenue is only recognized for the part of the consideration for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Judgment is required in determining the probability and level of discounts and rebates that will be granted. The estimate is updated throughout the term of the contract.

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

Other

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

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

Contract assets and liabilities

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

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

Income and expenses

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

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

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

Inventories

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

Financial instruments

Recognition

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

Classification and measurement

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

- Financial assets at amortized cost as the business model for these instruments is hold-to-collect contractual cash flows. These are mainly Trade and Other Receivables, which are subsequently measured at amortized cost using the effective interest method, less loss allowance and net of discounts given or agreed if the offset requirements are met.

- Financial assets at fair value via profit and loss (FVPL), as the business model for these instruments is held for trading. Derivatives and other financial assets at fair value are Included in this category.
- Financial assets at fair value through other comprehensive income (FVOCI) with no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment as the business model for these instruments is hold-to-collect contractual cash flows and sell. Minor equity investments are included in this category.
- Financial liabilities are all classified as subsequently measured at amortized cost, except for financial liabilities at fair value via profit and loss. Examples are derivatives, contingent consideration in a business acquisition, to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in profit or loss.

Netting of financial assets and liabilities

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

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

Derecognition of financial assets

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

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

or

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

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

Impairment of trade receivables and contract assets

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

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

Impairment of other financial assets

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

Derivatives and hedge accounting

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

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

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

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

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

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

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

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

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

Income taxes

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

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

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

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

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

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

Deferred tax assets

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

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

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

Provisions

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

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

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

Guarantees

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

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

Leases

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

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, Signify recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include (in-substance) fixed payments (less any lease incentives), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be

exercised by Signify and payments of penalties for terminating a lease, if the lease term reflects Signify exercising the option to terminate. In calculating the present value of lease payments, Signify uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

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

Goodwill

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

Intangible assets other than goodwill

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

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

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

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

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

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

Impairment of goodwill and intangible assets not yet ready for use

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

An impairment loss is recognized in the Consolidated statement of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the unit's recoverable amount, which is the greater of its value in use and fair value less costs of disposal. Value in use

or fair value less costs of disposal is measured as the present value of future cash flows expected to be generated by the asset via its use or sale with deduction of costs directly associated with its use or sale.

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

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

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

Pension and other employee benefits

Defined-benefit plans

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

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

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

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

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

Defined-contribution plans

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

Termination benefits

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

Other employee benefits

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

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

Cash and cash equivalents

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

Assets held for sale

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

Hyperinflationary economies

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

Equity

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

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

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

Property, plant and equipment

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

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

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

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

Share-based compensation expenses

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

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

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

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

market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Consolidated statement of cash flows

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

Earnings per share

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

Government grants

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

3 Information by segment and main country

Operating segments are components of Signify's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Board of Management of Signify). The operating segments are Digital Solutions, Digital Products and Conventional Products. The segments are organized based on the nature of the products and services. 'Other' represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions.

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

	Digital Solutions [5]	Digital Products	Conventional Products	Other [4]	Inter-segment elimination	Signify
2021						
Sales to external customers	3,524	2,452	861	23		6,860
Sales including intersegment	3,527	2,673	868	22	(230)	6,860
Depreciation and amortization [1]	(79)	(28)	(18)	(65)		(190)
EBITA [2]	**318**	**323**	**158**	**(164)**		**636**
EBITA as a % of sales	9.0%	13.2%	18.4%			9.3%
Amortization [3]						(122)
Income from operations	**205**	**316**	**158**	**(165)**		**514**
Financial income and expenses						(24)
Results from investments in associates						–
Income before taxes						**490**
2020						
Sales to external customers	3,252	2,288	943	19		6,502
Sales including intersegment	3,255	2,455	949	20	(178)	6,502
Depreciation and amortization [1]	(81)	(30)	(30)	(71)		(211)
EBITA [2]	**230**	**277**	**149**	**(120)**		**536**
EBITA as a % of sales	7.1%	12.1%	15.8%			8.2%
Amortization [3]						(120)
Income from operations	**119**	**269**	**149**	**(122)**		**416**
Financial income and expenses						(54)
Results from investments in associates						–
Income before taxes						**362**

1 Excluding amortization and impairments of acquisition-related intangible assets and goodwill.
2 Income from operations excluding amortization and impairments of acquisition-related intangible assets and goodwill ("EBITA").
3 Amortization and impairments of acquisition-related intangible assets and goodwill.
4 Considering the nature of Other, EBITA as a % of sales for Other is not meaningful.
5 Includes Cooper Lighting from March, 2020.

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]	
	2020 [2]	2021	2020 [2]	2021
Netherlands	517	547	466	555
United States	2,021	2,136	2,261	2,311
China	556	567	291	329
Germany	395	382	14	12
India	235	263	31	38
France	239	255	13	11
Saudi Arabia	140	122	137	136
Other countries	2,398	2,588	522	526
Total countries	**6,502**	**6,860**	**3,734**	**3,917**

[1] Includes goodwill.
[2] Includes Cooper Lighting from March, 2020.

Disaggregated revenue information

Total sales consist primarily of the sales of goods to customers (2021: 96%, 2020: 96%). Remaining sales include revenue from services, and sales- and usage-based royalties. The amount of revenue recognized for the year ended December 31, 2021 from performance obligations satisfied (or partially satisfied) in previous periods amounts to EUR 47 million (2020: EUR 55 million).

Sales by market:

	2020 [2]	2021 [2]
Europe	2,066	2,130
Americas [1]	2,437	2,581
Rest of the world	1,507	1,606
Global businesses	492	543
Total	**6,502**	**6,860**

[1] Includes Cooper Lighting from March, 2020.
[2] Effective Q1 2021, WiZ Connected is included in Market Groups Europe, Americas and Rest of the world (was previously part of Global businesses). Prior year amounts were adjusted to conform to the current year presentation.

4 Income from operations

	Note	2020	2021
Sales	3	6,502	6,860
Cost of materials used		(2,816)	(2,916)
Employee benefit expenses	5	(1,723)	(1,798)
Depreciation and amortization	6	(332)	(312)
Shipping and handling		(283)	(371)
Advertising and promotion		(135)	(136)
Lease related expenses		(29)	(36)
Other operational costs		(773)	(788)
Other business income, net	7	6	11
Income from operations		**416**	**514**

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	2020	2021
Salaries and wages		(1,080)	(1,111)
Social securities		(166)	(194)
Defined contribution plans		(73)	(74)
Cost of termination plans		(61)	(68)
Temporary personnel		(82)	(101)
Share-based compensation	27	(35)	(31)
Other		(225)	(218)
Total		**(1,723)**	**(1,798)**

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

	2020	2021
Employees	31,692	33,056
Third party workers	4,050	4,698
Total [1]	**35,743**	**37,754**

[1] 2,339 FTEs work in the Netherlands (2020: 2,512); the remaining FTEs work abroad.

6 Depreciation, amortization and impairment

	Note	2020	2021
Property, plant and equipment	13	(191)	(165)
Internal-use software	15	(6)	(10)
Other intangible assets	15	(120)	(122)
Development costs	15	(14)	(14)
Total		**(332)**	**(312)**

7 Other business income and expenses

	2020	2021
Result on disposal of businesses:		
• Income	–	–
• Expense	(1)	–
Result on disposal of fixed assets:		
• Income	3	13
• Expense	(1)	–
Result on other remaining businesses:		
• Income	9	6
• Expense	(5)	(8)
Other business income and expenses	**6**	**11**
Total other business income	12	19
Total other business expense	(7)	(8)

In 2021, the result on disposal of fixed assets includes a EUR 10 million income related to a sale of real estate in Conventional Products, in India.

The net result on other remaining businesses includes a EUR 3 million expense (2020: EUR 3 million income) from the movements in the indemnification positions with Koninklijke Philips N.V. originating from the separation.

8 Financial income and expenses

	Note	2020	2021
Interest income		16	14
Change in fair value of financial assets at fair value through profit or loss	29	2	18
Other financial income		–	1
Financial income		**18**	**33**
Interest expense	23	(39)	(33)
Interest on the net defined-benefit obligation	25	(8)	(6)
Interest expense on lease liability	23	(7)	(7)
Change in fair value of financial assets at fair value through profit or loss	29	(3)	(2)
Net foreign exchange gains (losses)		1	(2)
Impairment loss of financial assets		–	–
Other financial expenses	23	(14)	(7)
Financial expenses		**(72)**	**(57)**
Financial income and expenses		**(54)**	**(24)**

9 Income taxes

The components of income tax expense were as follows:

	2020	2021
Current tax expense	(142)	(78)
Prior year benefit (expense)	3	2
Current tax expense	**(139)**	**(76)**

	2020	2021
Origination and reversal of tax losses, tax credits and temporary differences	121	(28)
Change in tax losses, tax credits and temporary differences recognized	(16)	19
Tax rate changes	11	6
Prior year benefit (expense)	(4)	(3)
Deferred tax benefit (expense)	**112**	**(7)**

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% (2020: 25%). A reconciliation of the weighted average statutory income tax rate to the effective income tax rate is as follows:

	2020	%	2021	%
Income before taxes	**362**		**490**	
Weighted average statutory income tax rate	(27)	(7)%	(110)	(22)%
Non-deductible expenses	(15)	(4)%	(14)	(3)%
Tax incentives and exempt income	136	38 %	28	6 %
Deferred tax expense related to (de)recognition of deferred tax assets - net	(16)	(4)%	19	4 %
Changes in the liability for uncertain tax positions	(111)	(31)%	(4)	(1)%
Prior year tax expense	(1)	— %	(1)	— %
Changes in tax rates	11	3 %	6	1 %
Other	(4)	(1)%	(7)	(1)%
Income tax expense recognized in Consolidated statements of income	**(27)**	**(8)%**	**(83)**	**(17)%**

The weighted average statutory income tax rate increased by 15% in 2021 compared to 2020, as a consequence of a significant change in the geographic mix of income before tax mainly due to one-off transactions in relation to business integration in 2020.

The effective tax rate was 17% in 2021 (2020: 8%), which is lower than the statutory income tax rate of 25% in the Netherlands. The difference is primarily due to the recognition of deferred tax assets as a result of Signify's determination that sufficient positive evidence exists to support a probable estimation that these deferred tax assets are realizable, one-off non-cash tax benefits from a business integration, offset by an increase of our liabilities for uncertain tax positions.

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

The increase in effective income tax rate in 2021 of 9% compared to 2020 is mainly due to lower non-cash benefits from the revaluation of deferred tax assets and business integration. For 2020, the impact of business integration is included in the "Tax incentives and exempt income" line offset by "changes in the liability for uncertain tax positions" and "changes in tax rates". In addition, for 2020 the line item "Changes in tax rates" includes a non-cash tax benefit of EUR 32 million related to the revaluation of the deferred tax assets following the cancellation of the planned statutory tax rate decrease in the Netherlands.

Recognized deferred tax assets and liabilities

In millions of EUR	Assets	Liabilities	Net
2021			
Intangible assets	252	(83)	169
Property, plant and equipment	12	(44)	(32)
Inventories	49	(1)	48
Other receivables and assets	23	(9)	15
Provisions for pensions and other post-retirement	58	–	58
Provisions for termination benefits	6	–	6
Other provisions	41	–	41
Other liabilities	94	(19)	75
Deferred tax assets on tax attributes [1]	73	–	73
Total allocations	**609**	**(155)**	**454**
Set-off of deferred tax	(128)	128	–
Net deferred tax assets	**481**	**(27)**	**454**
2020			
Intangible assets	296	(108)	188
Property, plant and equipment	21	(44)	(23)
Inventories	40	0	39
Other receivables and assets	38	(6)	32
Provisions for pensions and other post-retirement	66	–	66
Provisions for termination benefits	9	–	9
Other provisions	29	–	29
Other liabilities	85	(29)	56
Deferred tax assets on tax attributes [1]	55	–	55
Total allocations	**639**	**(187)**	**452**
Set-off of deferred tax	(166)	166	–
Net deferred tax assets	**473**	**(22)**	**452**

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

The net deferred tax assets of EUR 454 million (2020: EUR 452 million) consists of deferred tax assets of EUR 481 million (2020: EUR 473 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 27 million (2020: EUR 22 million) in countries with a net deferred tax liability position. An amount of EUR 125 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 2021 and 2020 were as follows:

In millions of EUR	Balance as at January 1	Recognized in income	Other	Balance as at December 31
2021				
Intangible assets	188	(12)	(7)	169
Property, plant and equipment	(23)	(14)	5	(32)
Inventories	39	4	5	48
Other receivables	32	(16)	(1)	15
Provisions:				
• pensions and other post-retirement benefits	66	(7)	(1)	58
• termination benefits	9	(2)	(1)	6
• other provisions	29	11	1	41
Other liabilities	56	11	8	75
Tax loss carryforwards (including tax credit carryforwards)	55	18	1	73
Net deferred tax assets	**452**	**(7)**	**9**	**454**
2020				
Intangible assets	44	144	1	188
Property, plant and equipment	(29)	6	–	(23)
Inventories	42	–	(3)	39
Other receivables	43	(8)	(3)	32
Provisions:				
• pensions and other post-retirement benefits	73	(3)	(4)	66
• termination benefits	8	3	(1)	9
• other provisions	32	(1)	(2)	29
Other liabilities	53	4	(1)	56
Tax loss carryforwards (including tax credit carryforwards)	90	(32)	(3)	55
Net deferred tax assets	**356**	**112**	**(16)**	**452**

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. For 2020, the column "recognized in income statement" in the table above includes the impact of changes in the organizational structure.

At December 31, 2021, the temporary differences associated with investments, including potential income tax consequences on dividends for which no deferred tax liabilities are recognized, aggregate to EUR 271 million (2020: EUR 271 million).

At December 31, 2021, net operating loss carryforwards expire as follows:

Expiry year operating loss carryforwards

Total	2022	2023	2024	2025	2026	After 2026 but not unlimited	Unlimited
636	1	1	1	4	23	21	585

Unrecognized tax losses and tax credits
At December 31, 2021, the amount of operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet was EUR 464 million (2020: EUR 541 million).

Out of EUR 464 million, an amount of EUR 438 million should not be limited in time, EUR 1 million will expire by 2022, EUR 4 million will expire by 2023, EUR 1 million will expire by 2024, EUR 4 million will expire by 2025, EUR 7 million will expire by 2026 and EUR 9 million expires after 2026, but carryforward is limited in time.

Unrecognized deductible temporary differences
At December 31, 2021, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 106 million (2020: EUR 106 million).

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

In millions of EUR	2020	2021
Income tax receivable under other current assets	39	24
Income tax receivable under other non-current assets	8	8
Income tax payable under current liabilities	(20)	(16)
Income tax payable under non-current liabilities	(108)	(118)

Tax risks

Signify is exposed to tax uncertainties for which, if deemed probable, a liability is recognized in the income tax payable under non-current liabilities, and when tax uncertainties relate to deferred tax assets, these are offset against each other. These uncertainties include, among others, the following:

Transfer pricing uncertainties

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

Tax uncertainties on general and specific service agreements and licensing agreements

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

Tax uncertainties due to permanent establishments

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

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

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

consolidated financial statements will be material to its financial condition or future results of operations.

With regard to the uncertainties, an income tax payable is recognized when it is probable that additional taxes will be due. In addition, related to similar uncertainties, an indemnification liability to Koninklijke Philips N.V. of EUR 52 million (2020: EUR 51 million) and an indemnification receivable of EUR 10 million (2020: EUR 13 million) is recorded. The total net indemnification liability increased in 2021 by EUR 4 million mainly due to settlements and expirations. Tax uncertainties also include exposures with a risk assessment which are deemed lower than probable, but possible. The best estimate of the maximum amount in connection with these uncertainties is EUR 121 million. Signify believes that in connection with these uncertainties it is probable that no additional taxes will be due. Therefore, no income tax payable is recognized.

10 Earnings per share

	2020	2021
Net income attributable to shareholders of Signify N.V.	325	397
Weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	126,223,168	124,966,505
Plus incremental shares assumed from conversions of:		
• Performance shares	2,669,282	2,828,996
• Conditional shares	676,799	710,721
• Restricted shares	122,254	139,716
Diluted weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	129,691,502	128,645,938
in EUR		
• Basic	2.58	3.18
• Diluted	2.51	3.09

11 Acquisitions and divestments

On July 1, 2021, Signify completed the acquisition of 100% interest in Telensa Holdings Limited, a UK-based expert in wireless monitoring and control systems for smart cities. The acquisition involved a total consideration of EUR 31 million resulting in EUR 17 million goodwill and EUR 13 million intangible assets. Telensa Holdings Limited is consolidated within Digital Solutions. The acquisition is considered not material to the consolidated financial statements.

On December 20, 2021, Signify announced that it had entered into a definitive agreement with ams OSRAM to acquire Austin, Texas-based Fluence for USD 272 million (EUR 242 million) on a cash and debt-free basis. This acquisition will strengthen Signify's global Agriculture lighting growth platform and extend its position in the North American horticultural lighting market. It will operate as an entity within Signify's agricultural lighting business in Division Digital Solutions. Fluence employs more than 200 people. The acquisition is expected to close in the first half of 2022, subject to regulatory approvals and other conditions and has therefore not yet been accounted for in accordance with IFRS 3.

There were no divestments in Signify in 2021.

12 Interests in entities

Interests in subsidiaries

The Consolidated financial statements comprise the assets and liabilities of approximately 150 legal entities. Set out below is a list of material subsidiaries, in alphabetical order, representing more than 5% of either the consolidated company sales, income from operations or net income (before any intra-company eliminations). All the entities are 100% owned.

Legal entity name	Principal country of business
Cooper Lighting Netherlands B.V.	Netherlands
Cooper Lighting, LLC	United States of America
Signify (China) Investment Co., Ltd.	China
Signify Belgium N.V.	Belgium
Signify GmbH	Germany
Signify Holding B.V.	Netherlands
Signify Poland Sp. z.o.o.	Poland
Signify Netherlands B.V.	Netherlands
Signify North America Corporation	United States of America
WiZ Connected Lighting Co. Limited	Hong Kong

Signify does not have subsidiaries that have non-controlling interests that are material for its Consolidated financial statements.

Investments in associates

Signify has investments in several associates, none of them are regarded as individually material. In aggregate, the carrying amount, share of profit and other comprehensive income of the associates are shown in the Consolidated statement of financial position, Consolidated statement of income and Consolidated statement of comprehensive income.

13 Property, plant and equipment

	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress	Total
Book value as at January 1, 2020	**432**	**123**	**66**	**23**	**644**
Of which right-of-use assets	205	–	18	–	222
Change in book value:					
Capital expenditure	18	7	12	60	97
Of which right-of-use assets	17	–	8	–	25
Assets available for use	10	23	11	(44)	–
Acquisitions	107	53	17	25	202
Of which right-of-use assets	26				26
Additions	**135**	**83**	**41**	**41**	**299**
Sales and disposals	(5)	(1)	–	–	(6)
Divestments and transfers to assets classified as held for sale	(9)	0	–	–	(10)
Of which right-of-use assets	–	–	–	–	–
Depreciation	(88)	(43)	(45)	–	(176)
Of which right-of-use assets	(57)		(10)		(67)
Impairment	(6)	(6)	(1)	–	(14)
Of which right-of-use assets	(2)	–	–	–	(2)
Translation differences and other movements	(11)	(9)	4	(14)	(30)
Of which right-of-use assets	3	–	–	–	3
Total changes	**15**	**24**	**(2)**	**27**	**64**
Balance as at December 31, 2020					
Cost	941	1,284	437	51	2,713
Accumulated depreciation / impairment	(494)	(1,137)	(374)	–	(2,005)
Book value	**447**	**147**	**63**	**51**	**708**
Of which right-of-use assets	192	–	15	–	207

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

The impairment losses were mainly driven by reduction of real estate footprint in the Netherlands.

Additions of right-of-use assets primarily include new and renewed lease contracts.

14 Leases

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

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

	Note	2020	2021
Interest expense on lease liability	8	(7)	(7)
Total cash outflow for leases	4, 8, 23	(120)	(119)

15 Intangible assets

	Goodwill	Customer relationships	Technology based	Brand names	Product development	Software	Other	Total
Balance as at January 1, 2020								
Cost	2,651	1,212	375	343	163	36	11	4,791
Accumulated amortization / impairment	(708)	(970)	(293)	(267)	(136)	(25)	(7)	(2,405)
Book value	**1,943**	**242**	**82**	**77**	**28**	**11**	**4**	**2,386**
Change in book value:								
Additions	–	–	–	–	13	18	–	32
Amortization	–	(77)	(26)	(17)	(13)	(6)	(1)	(139)
Acquisitions	515	335	70	103	–	1	–	1,024
Impairment	–	–	–	–	(1)	–	–	(1)
Translation differences and other movements	(206)	(48)	(3)	(17)	(1)	–	–	(275)
Total changes	**308**	**210**	**42**	**69**	**(2)**	**13**	**(1)**	**640**
Balance as at December 31, 2020								
Cost	2,921	1,419	388	410	145	58	8	5,350
Accumulated depreciation / impairment	(670)	(967)	(264)	(264)	(119)	(35)	(5)	(2,324)
Book value	**2,251**	**452**	**124**	**146**	**26**	**23**	**3**	**3,026**
Change in book value:								
Additions	–	–	1	–	21	17	–	38
Amortization	–	(77)	(27)	(18)	(14)	(10)	(1)	(146)
Acquisitions	28	5	4	2	–	–	1	41
Impairment	–	–	–	–	(1)	–	–	(1)
Translation differences and other movements	185	35	2	12	1	–	–	235
Total changes	**213**	**(37)**	**(20)**	**(4)**	**8**	**7**	**1**	**167**
Balance as at December 31, 2021								
Cost	3,167	1,522	413	440	163	75	10	5,790
Accumulated amortization / impairment	(703)	(1,107)	(308)	(298)	(129)	(45)	(6)	(2,597)
Book value	**2,464**	**415**	**105**	**142**	**34**	**30**	**4**	**3,193**

Goodwill

During the year ended December 31, 2021, a translation difference of EUR 185 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 Digital Solutions is considered to be significant in comparison to the total book value of goodwill of Signify at December 31, 2020, and December 31, 2021. The goodwill allocated to each of the cash-generating units as of December 31, 2020, and December 31, 2021, is presented below.

	2020	2021
Digital Solutions	1,902	2,089
Digital Products	296	315
Conventional Products	53	59
Book value	**2,251**	**2,464**

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 2021, the estimated recoverable amount of the cash-generating units tested exceeded the carrying value of the units. Therefore, no impairment loss was recognized.

Key assumptions used in the impairment tests for the units were sales growth rates, EBITA and the rates used for discounting the projected cash flows. These cash flow projections cover an initial period with specific estimates from 2022 to 2024. Projections were extrapolated with declining growth rates for a period of five years, after which a terminal value was calculated. The sales growth rates and EBITA used to estimate cash flows are based on past performance, external market growth assumptions, taking into account current market conditions, and industry long-term growth averages.

For Digital Solutions, EBITA is expected to increase over the projection period as a result of volume growth, cost efficiencies, and recovery from the COVID-19 pandemic and supply chain disruptions. Cash flow projections for 2021 and 2020 were based on the key assumptions included in the table below:

Key assumptions in %

	Compound sales growth rate [1]			
	Initial forecast period [2]	Extra polation period	Used to calculate terminal value	Pre-tax discount rates
Digital Solutions 2021	12.2	2.6	0.3	11.0
Digital Solutions 2020	9.7	3.6	0.3	11.2

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period.
[2] The CAGR% for the initial forecast period in the 2020 goodwill test is presented as if Cooper Lighting would have been part of Signify in 2019 for comparability purposes.

The impairment test of Q4 2021 assumes the electronic components shortage will resolve over the course of 2022, and a recovery of the global lighting market to its pre-COVID-19 projected level by 2024. In addition, Signify performed a sensitivity analysis and noted that a reasonably possible change in key assumptions will not result in an impairment.

Other intangible assets

The additions for 2021 contain internally generated assets of EUR 21 million for product development and EUR 11 million for software. In 2021, acquired other intangible assets are Customer relationships of EUR 5 million, Technology based of EUR 4 million, Brand names of EUR 2 million, and other intangible assets EUR 1 million which all relate to Telensa Holdings Limited.

The capitalized product development costs and software, for which amortization has not yet commenced, amounted to EUR 27 million as of December 31, 2021 (December 31, 2020: EUR 22 million).

As of December 31, 2021, the carrying amount of the customer relationships originating from the Genlyte acquisition in 2007 was EUR 37 million (USD 42 million) with a remaining amortization period of 1.1 years (2020: EUR 66 million, USD 81 million; 2.1 years). The carrying amount of the customer relationships originating from the Cooper Lighting acquisition in 2021 was EUR 288 million (USD 326 million) with a remaining amortization period of 18.8 years (2020: EUR 286 million, USD 352 million; 19.8 years).

16 Objectives, policies and processes for managing capital

Signify generated solid cash flows from operating activities in 2021. Signify remains focused on maintaining a robust capital structure and is committed to an investment grade rating. Signify prioritizes deleveraging with free cash flow expected to drive down Signify's net leverage ratio from around 1.4 at December 31, 2021 (December 31, 2020: 1.7) to around 1x net debt/EBITDA by the end of 2022. Signify manages free cash flow performance by continuous structural working capital initiatives and gradual costs optimization, including post-merger integration costs related to previous acquisitions.

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

Free cash flows for the year ended December 31, 2021 and comparative information are presented below:

	2020	2021
Cash flows from operating activities	891	704
Cash flows from investing activities	(1,379)	(91)
Cash flows before financing activities	**(488)**	**613**
Cash flows from operating activities	891	704
Net capital expenditures:		
• Additions of intangible assets	(32)	(34)
• Capital expenditures on property, plant and equipment	(67)	(84)
• Proceeds from disposal of property, plant and equipment	25	27
Free cash flows	**817**	**614**

Working capital position as at December 31, 2021 and comparative information are presented below:

	2020	2021
Inventories	885	1,410
Trade and other receivables	1,140	1,183
Trade and other payables	(1,731)	(2,334)
Other working capital items	19	(8)
Working capital	**313**	**250**

17 Inventories

	2020	2021
Raw materials and components	314	508
Finished goods	571	901
Total	**885**	**1,410**

The write-down of inventories to net realizable value amounted to EUR 23 million for the year ended December 31, 2021 (2020: EUR 28 million).

18 Trade and other receivables

	2020	2021
Trade receivables	1,102	1,137
Other receivables	38	46
Total receivables, net of value allowance	**1,140**	**1,183**

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

	2020	2021
Current	1,050	1,064
Overdue 1-30 days	21	36
Overdue 31-180 days	29	38
Overdue >180 days	2	–
Trade receivables, net	**1,102**	**1,137**

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

	2020	2021
Balance as at January 1	**(103)**	**(94)**
Additions charged to expense	(3)	–
Utilizations	6	23
Translation differences and other movements	5	(5)
Balance as at December 31	**(94)**	**(76)**

As per December 31, 2021, the loss allowance for accounts receivable included allowances for individually impaired receivables of EUR 69 million (2020: EUR 83 million).

19 Trade and other payables

	2020	2021
Payables to suppliers	1,089	1,611
Amounts payable to employees	226	233
Customer rebates	187	209
Marketing and sales related	64	97
Materials and fixed assets related	49	59
Other payables	115	124
Trade and other payables	**1,731**	**2,334**

Other payables include multiple individually insignificant items, among others communication and IT-related accruals, consultancy costs payable and other payables.

20 Other assets

In millions of EUR	2020	2021
Prepayments	47	51
Contract assets	39	53
Other assets	146	155
Total	**231**	**259**
From which current	171	192
From which non-current	60	67

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

Indemnification receivable of EUR 10 million (2020: EUR 13 million) included in Other assets, mainly relates to the indemnification for tax liabilities arising from the separation from Koninklijke Philips N.V.

21 Other liabilities

	2020	2021
Contract liability	162	200
Other tax liabilities	79	85
Other liabilities	131	110
Total	**372**	**395**
From which current	213	213
From which non-current	159	182

Out of the total amount of EUR 162 million recognized in contract liabilities at the end of 2020 (2019: EUR 137 million), EUR 53 million has been recognized as revenue for the year ended December 31, 2021 (2020: EUR 40 million). The non-current portion of contract liabilities is recognized over time over the duration of the contract, generally beyond 1 and up to 15 years.

Other liabilities mainly relate to separation from Koninklijke Philips N.V. In 2016, as part of the agreement in relation to the separation from Koninklijke Philips N.V., indemnities and guarantees were provided by major subsidiaries of Signify to Koninklijke Philips N.V. Conversely, certain major subsidiaries of Koninklijke Philips N.V. have provided guarantees to Signify. Indemnification payable of EUR 52 million (2020: EUR 51 million) mainly relates to uncertain tax positions indemnified in the separation from Koninklijke Philips N.V.

22 Equity

Share capital

The Company has an authorized share capital of EUR 6 million, divided into 300,000,000 ordinary shares with a nominal value of EUR 0.01 per share and 300,000,000 preference shares with a nominal value of EUR 0.01 per share.

On December 31, 2021, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2020: 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, 2021, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

A proposal will be submitted to the 2022 Annual General meeting of Shareholders to pay a dividend of EUR 1.45 per ordinary share, in cash, from the 2021 net income.

In June 2021, the Company settled an extraordinary dividend of EUR 1.35 per ordinary share, representing a total value of EUR 169 million including costs. In addition, the Company also settled the regular dividend of EUR 1.40 per ordinary share, representing a total value of EUR 175 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

	2020	2021
Balance as at January 1	**125,938,631**	**125,581,371**
Purchase of treasury shares	(1,333,418)	(1,937,489)
Delivery of treasury shares	976,158	1,258,122
Balance as at December 31	**125,581,371**	**124,902,004**

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):

	2020	2021
Shares acquired	1,333,418	1,937,489
Average market price	EUR 28.21	EUR 43.08
Amount paid	EUR 38 million	EUR 83 million
Shares delivered	976,158	1,258,122
Average price (FIFO)	EUR 32.66	EUR 25.38
Cost of delivered shares	EUR 32 million	EUR 32 million
Total shares in treasury at year-end	**2,762,867**	**3,442,234**
Total cost	**EUR 74 million**	**EUR 126 million**

Legal reserves

As at December 31, 2021, legal reserves related to unrealized losses in currency translation of EUR 80 million, unrealized losses related to cash flow hedges of EUR 2 million, the 'affiliated companies' reserve of EUR 143 million, capitalized development costs reserve of EUR 53 million, revaluation reserve of EUR 14 million and other reserves of EUR 3 million.

The item 'affiliated companies' reserve relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2020, legal reserves related to unrealized losses in currency translation of EUR 337 million, unrealized gains related to cash flow hedges of EUR 17 million, the 'affiliated companies' reserve of EUR 126 million, capitalized development costs reserve of EUR 28 million and other reserves of EUR 3 million.

Limitations in the distribution of shareholders' equity

As at December 31, 2021, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 214 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 210 million and other reserves of EUR 3 million. The unrealized losses related to currency translation differences of EUR 80 million and cash flow hedges of EUR 2 million which although qualifying as legal reserves, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2021, amounted to EUR 2,245 million (2020: EUR 2,021 million).

As at December 31, 2020, the limitations in distributable reserves were EUR 176 million related to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 154 million, other reserves of EUR 3 million and unrealized gains related to cash flow hedges of EUR 17 million. The unrealized losses related to currency translation differences of EUR 337 million, which although qualifying as a legal reserve, reduce the distributable amount by their nature.

23 Debt

	2020	2021
Term loan (EUR)	389	280
Term loan (USD)	406	199
Eurobonds	1,262	1,265
Lease liabilities	233	249
Other debt	15	11
Subtotal	**2,305**	**2,003**
Bank overdrafts	3	4
Gross debt	**2,307**	**2,007**
Cash and cash equivalents	(1,033)	(851)
Net debt (cash)	**1,275**	**1,156**
Total equity	**2,321**	**2,597**
Net debt and total equity	3,595	3,753
Net debt divided by net debt and total equity (in %)	35%	31%
Total equity divided by net debt and total equity (in %)	65%	69%

Movements of debt were as follows:

	Term loans	Eurobonds	Bridge loan	Lease liabilities	Other debt	Bank overdrafts	Total
Balance as at January 1, 2020	**1,186**	**–**	**–**	**252**	**20**	**7**	**1,465**
Acquisitions	–	–	–	26	–	–	26
Financing cash flows:							
• New borrowings	1,194	1,270	1,261	–	19	–	3,744
• Repayment	(1,544)	–	(1,291)	(80)	(17)	–	(2,932)
Translation difference	(39)	–	30	(9)	–	–	(18)
Other movements [1]	(2)	(8)	–	44	(7)	(4)	22
Balance as at December 31, 2020	**795**	**1,262**	**–**	**233**	**15**	**3**	**2,307**
Balance as at January 1, 2021	**795**	**1,262**	**–**	**233**	**15**	**3**	**2,307**
Acquisitions	–	–	–	1	–	–	1
Financing cash flows:							
• New borrowings	630	–	–	–	3	–	633
• Repayment	(984)	–	–	(72)	(8)	–	(1,064)
Translation difference	36	–	–	11	–	–	47
Other movements [1]	2	3	–	76	–	1	82
Balance as at December 31, 2021	**479**	**1,265**	**–**	**249**	**11**	**4**	**2,007**

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

Term loan structure and a revolving credit facility

During 2021, Signify had a net reduction in its long-term loans of EUR 354 million. As of December 31, 2021, the Company had outstanding long-term loans amounting to EUR 280 million maturing in November 2024 and USD 225 million maturing in January 2025. In addition, the revolving credit facility (RCF) of EUR 500 million was extended to January 2027.

The EUR term loan bears interest at a variable rate based on the relevant applicable EURIBOR plus a fixed margin of 0.15%. The USD term loan bears interest at a variable rate based on the relevant applicable USD LIBOR with zero floor plus a margin. As of December 31, 2021, the margin on the USD term loan was 0.75% and is subject to change, depending on the public credit rating of Signify assigned by rating agencies.

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

Eurobonds

As of December 31, 2021, Signify had outstanding EUR 675 million of fixed rate notes due in May 2024 with an annual coupon of 2.000% and EUR 600 million of fixed rate notes due in May 2027 with an annual coupon of 2.375%.

24 Provisions

	Restructuring-related provisions	Environmental Provisions	Product warranty	Other provisions	Total
Balance as at January 1, 2020	**78**	**110**	**41**	**136**	**365**
Acquisitions	0	5	34	20	58
Additions	72	8	62	40	182
Utilizations	(52)	(10)	(61)	(42)	(165)
Releases	(13)	(1)	–	(14)	(28)
Changes in discount rate	–	0	–	2	2
Accretion	–	1	–	1	1
Translation differences and other movements	(1)	(3)	(6)	(10)	(21)
Balance as at December 31, 2020	**84**	**109**	**70**	**133**	**396**
Short-term	68	28	37	39	172
Long-term	16	81	33	94	224
Balance as at January 1, 2021	**84**	**109**	**70**	**133**	**396**
Additions	81	9	32	47	169
Utilizations	(88)	(22)	(40)	(40)	(189)
Reclassifications	1	–	–	–	1
Releases	(17)	(2)	(1)	(13)	(33)
Changes in discount rate	–	1	–	(4)	(3)
Accretion	–	–	–	1	1
Translation differences and other movements	2	2	4	5	13
Balance as at December 31, 2021	**62**	**97**	**66**	**129**	**355**
Short-term	46	18	33	43	140
Long-term	16	79	33	86	215

Restructuring

Additions to restructuring provisions during the year ended December 31, 2021 were mainly related to the restructuring of the central organization. As at December 31, 2021, the provision relates primarily to the restructuring of the central organization and programs in Division Conventional Products and is mainly in Belgium and the Netherlands. Signify expects the provision will be utilized mainly within next year.

Environmental provision

Signify is exposed to environment risks, mainly because it has been in the business of manufacturing products for more than a century. During that period, Signify has opened, discontinued and acquired many manufacturing plants and sites. Some of these plants and sites have been used for industrial purposes for decades and as such, there is a latent risk that these premises may have environmental conditions that require corrective actions as a result of such use. The environmental provisions include accrued costs recorded with respect to environmental remediation in various countries. Provisions for environmental remediation can change significantly due to the emergence of additional information regarding the extent or nature of the contamination, the need to utilize alternative technologies, actions by regulatory authorities as well as changes in judgments and discount rates. The environmental provision is expected to be utilized mainly within the next five years.

Product warranty

Manufacturing of Signify's products involves complex processes and defects might occur. In addition, it is possible that some of Signify's products may not perform as expected (for example, in terms of estimated life span and projected energy savings). These defects or shortfalls may cause Signify to incur significant warranty, support and replacement costs. The provision for product warranty reflects the estimated costs of replacement and free-of-charge services that will be incurred by Signify with respect to products sold. Signify expects the provision will be mainly utilized within the next two years.

Other

Signify and certain of its group companies are involved in legal proceedings relating to such matters as product liability and claims for property damage and personal injury, alleged to have been caused by failure or malfunction of its products as well as commercial transactions, and intellectual property infringements (among others). The outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty. Signify makes provisions if payments with respect to such matters are probable and the amount can be estimated reliably. Furthermore, other provisions mainly comprise of provisions for self-insurance, decommissioning and provision for employee jubilee funds. Other provisions are expected to be utilized mainly within the next five years.

25 Post-employment benefits

Post-employment benefits covered in this note relate to defined-benefit pension and other post-retirement benefit plans, including defined-benefit retiree medical plans. The benefits provided by these plans are based on employees' years of service and compensation levels. Employee post-employment defined-benefit plans have been established in several countries in accordance with the legal requirements, customs and local practice.

Net defined-benefit liabilities per country

	2020			2021		
	Obligation	Plan assets	Net Liability	Obligation	Plan assets	Net Liability
Germany	227	(15)	212	208	(15)	193
Unites States	579	(485)	94	563	(475)	88
Other countries	153	(69)	84	133	(51)	82
Total countries	**959**	**(569)**	**390**	**904**	**(541)**	**363**

United States

The defined-benefit Hourly & Salaried Pension Plan in the US covers certain hourly workers and salaried workers hired before January 1, 2005 and has a net liability of EUR 14 million. The plan is closed for new entrants and since 2016 no further benefit accruals are taking place. Employees only accrue benefits in a defined-contribution plan. Signify pays the administration cost and contributions to cover the funding deficit of the Hourly & Salaried Pension Plan. The plan assets are governed by an Investment Committee. Signify also has an unfunded pension plan in place for higher salaried employees with a net liability of EUR 20 million and a post-retirement welfare plan with a net liability of EUR 54 million.

Signify reviewed the funding level of the Hourly & Salaried Pension Plan and decided that it would not make a contribution in 2021 and neither expects to make a contribution in 2022. Signify expects cash outflows of EUR 8 million in 2022 for the unfunded plans.

For the funding of the deficit of the US Hourly & Salaried Pension Plan, Signify adheres to the minimum funding requirements of the US Pension Protection Act.

Germany

For employees with a salary above a certain salary threshold, there is a funded defined-benefit pension plan which has a deficit of EUR 8 million. This plan has been closed for new entrants since January 1, 2018. Since 2016, Signify no longer makes any contributions to this plan but funds the liabilities when these are paid out to retirees. New employees accrue pension benefits through a defined-contribution plan. For other closed defined-benefit plans, Signify had an unfunded liability of EUR 184 million as at December 31, 2021. Signify expects cash outflows of EUR 17 million in 2022 for the pension plans.

Cash outflows for the defined-benefit plans in countries other than the USA and Germany are expected to total EUR 10 million in 2022.

Risks related to defined-benefit plans

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

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

Signify has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined-benefit plans.

Movements of net defined-benefit liability

	2020			2021		
	Obligation	Plan assets	Net Liability	Obligation	Plan assets	Net Liability
Balance as at January 1	**1,027**	**(590)**	**437**	**959**	**(569)**	**390**
Service cost	11	–	11	9	–	9
(Negative) past service cost	–	–	–	3	–	3
Admin expenses paid	–	1	1	–	1	1
Settlements [1]	–	–	–	(20)	19	(1)
Recognized in employee benefit expenses	11	1	12	(8)	20	12
Interest (cost) / income	24	(16)	8	18	(12)	6
Included in Statements of Income	**35**	**(15)**	**20**	**10**	**8**	**18**
Actuarial gains / (losses)						
• Demographic assumptions	(6)	–	(6)	5	–	5
• Financial assumptions	54	(59)	(5)	(35)	–	(35)
• Experience adjustment	(1)	–	(1)	(4)	15	11
Exchange rate differences	(76)	51	(25)	51	(41)	10
Included in Statements of comprehensive income	**(29)**	**(8)**	**(37)**	**18**	**(26)**	**(9)**
Employee contributions	2	(2)	–	1	(1)	–
Employer contributions	–	(4)	(4)	–	(6)	(6)
Benefits paid	–	–	–	–	–	–
• Benefits paid directly by employer	(31)	–	(31)	(28)	–	(28)
• Benefits paid from plan assets	(50)	50	–	(53)	53	–
Reclassifications	–	–	–	(2)	–	(2)
New consolidations	5	–	5	–	–	–
Other	**(74)**	**44**	**(30)**	**(82)**	**46**	**(36)**
Balance as at December 31	**959**	**(569)**	**390**	**904**	**(541)**	**363**

[1] Mainly related to a settlement of the plan liabilities of the Indian provident fund in which Signify participated. These were settled with the national provident fund and the net impact was a reduction in net liability of EUR 1 million.

Plan assets allocation

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

In millions of EUR	2020	2021
Debt securities	408	419
Equity securities	68	51
Other	93	71
Total assets	**569**	**541**

The assets in 2021 contained 12% unquoted assets. Plan assets in 2021 do not include property occupied by or financial instruments issued by Signify.

Some 88% 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 12% of the total plan assets is mainly the market value of insured pension benefits.

Assumptions

The mortality tables used for Signify's major schemes are:

- US: Base table PRI-2012 White Collar mortality table, projected forward with future mortality improvements according to Scale MP-2021.
- Germany: Richttafeln 2018 G K. Heubeck.

The weighted averages of the assumptions used to calculate the defined-benefit obligation as of December 31, 2021 were as follows:

In %	2020	2021
Discount rate	1.9	2.3
Pension cost increases	0.4	0.4
Healthcare cost increases	0.4	0.5
Wage increases	0.4	0.4

The average duration of the defined-benefit obligation of the defined-benefit plans is 9.3 years. For the defined-benefit plans in the US and Germany, the average duration is respectively 9.1 years and 8.9 years. The average discount rates for the plans in these countries are respectively 2.6% and 0.8%. 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 Signify were to change key assumptions. The defined-benefit obligation was recalculated using a change of 1% in the respective assumptions which overall is considered a reasonably possible change. The impact on the defined-benefit obligation of changes in discount rate is for funded plans normally accompanied by offsetting movements in plan assets, especially when using matching strategies.

	2020	2021
Increase		
Discount rate (1% movement)	(88)	(80)
Wage change (1% movement)	7	11
Pension indexation change (1% movement)	22	19
Longevity (see explanation)	32	40
Healthcare cost change (1% movement)	6	6
Decrease		
Discount rate (1% movement)	102	91
Wage change (1% movement)	(6)	(9)
Pension indexation change (1% movement)	(20)	(21)

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

26 Related party transactions

Signify considers the Board of Management and the Supervisory Board to be key management personnel as defined in IAS 24 'Related parties'. For remuneration details of Key Management, see note 28, Information on remuneration.

27 Share-based compensation

The total share-based compensation costs for the period ended December 31, 2021 amounted to EUR 31 million (period ended December 31, 2020: EUR 35 million)

Long-term Incentive Plan

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

Vesting of performance shares is conditional on the achievement of performance conditions measured over a period of three years. The performance condition measurement is based on three measures for the 2019 LTI Plan and four measures for the 2020 and 2021 LTI Plans. For details refer to the following table:

	Relative share of performance shares per LTI plan (in %)		
Types of performance shares	**LTI 2019**	**LTI 2020**	**LTI 2021**
Total shareholder return	40	25	25
Free cash flow	40	25	25
Sustainability	20	25	25
Return on Capital Employed		25	25
Total	100	100	100

For the Board of Management and certain members of senior management, the LTI Plan consists of performance shares only. Shares are conditionally granted annually.

In addition to shares awarded under the Signify LTI Plan, Signify may in individual cases, such as in the hiring process of members of (senior-) management, also grant restricted shares. Restricted shares have either three-year cliff vesting period or vest gradually over the vesting period of one, two or three years.

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

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 %

	2021
Risk-free interest rate	(0.7)%
Expected share price volatility	39 %

The assumptions were used for these calculations only and do not necessarily represent an indication of Signify management's expectation of future developments for other purposes.

Historic volatility was measured over the same timeframe as the simulation period (weighted average 2.6 years).

The amount calculated as an expense for TSR shares is not adjusted for actual performance.

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

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

A summary of Signify performance shares movements and outstanding balance as of December 31, 2021 and 2020, is presented below.

Signify performance shares

	2020		2021	
EUR-denominated	**Shares**	**Weighted average grant-date fair value**	**Shares**	**Weighted average grant-date fair value**
Balance as at January 1	**1,899,991**	**27.12**	**3,380,119**	**20.14**
Granted	1,110,226	15.96	579,559	50.20
Vested	(672,036)	34.96	(954,446)	21.18
Forfeited	(162,444)	30.34	(177,453)	22.88
Performance adjustment	1,204,381	22.62	257,992	17.85
Balance as at December 31	**3,380,119**	**20.14**	**3,085,771**	**24.51**

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, 2021, estimated unrecognized costs related to non-vested performance shares amounted to EUR 25 million. These costs are expected to be recognized over a weighted-average period of 1.9 years.

Conditional shares

Fair value of conditional shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

A summary of Signify conditional shares movements and outstanding balance as of December 31, 2021 and 2020, is presented below.

Signify conditional shares

EUR-denominated	2020 Shares	2020 Weighted average grant-date fair value	2021 Shares	2021 Weighted average grant-date fair value
Balance as at January 1	**800,643**	**24.05**	**900,831**	**19.21**
Granted	416,350	15.99	224,345	46.65
Vested	(253,290)	28.87	(224,180)	21.60
Forfeited	(62,872)	20.29	(89,332)	20.92
Balance as at December 31	**900,831**	**19.21**	**811,664**	**25.96**

On December 31, 2021, estimated unrecognized costs related to non-vested conditional shares amounted to EUR 8 million. These costs are expected to be recognized over a weighted-average period of 2.0 years.

Restricted shares

Fair value of restricted shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

In 2021, Signify granted 34,414 restricted shares with weighted average grant date fair value of EUR 43.05.

On December 31, 2021, estimated unrecognized costs related to non-vested restricted shares amounted to EUR 1 million. These costs are expected to be recognized over a weighted-average period of 1.1 years.

28 Information on remuneration

In 2021, the total remuneration costs relating to the members of Key Management amounted to EUR 7,118,559 (2020: EUR 8,308,152).

Remuneration of the Board of Management

In 2021, the total remuneration costs relating to the members of the Board of Management amounted to EUR 6,434,059 (2020: EUR 7,677,034).

Remuneration costs of Key Management - the Board of Management

	2020	2021
Salary/Base compensation [1]	2,160,184	2,123,337
Annual Incentive [2]	1,270,949	1,624,156
Long Term Equity-based Incentive [3]	2,829,189	1,962,627
Pension allowances	633,490	511,445
Pension scheme costs	79,157	88,209
Other compensation [4]	115,008	124,285
Termination benefits [5]	589,057	–
Total costs	**7,677,034**	**6,434,059**

1 2020 includes a 20% COVID-19 reduction in base salary in Q2.
2 Related to the performance in the year reported which are paid out in the subsequent year.
3 Costs of performance shares and restricted shares (2020: Signify sign-on of EUR 300,000 F.J. van Engelen Sousa) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date. Comparatives for 2020 were revised as performance shares costs for C.L. van Schooten were EUR 242,363 higher than disclosed in 2020. The performance shares costs for M.L. Mariani also include the costs for shares awarded when she was not yet a member of the Board of Management.
4 Mainly concern (part of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a part of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then such part is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated. Net allowances are not included.
5 As the company elected not to renew the services contract for C.L. van Schooten after the end of term in May 2021, as per his services contract, he received a lump sum payment of one time the annual base compensation/salary (gross amount of EUR 589,057) in June 2021. An additional tax levy, pursuant to Article 32bb of the Dutch wage tax act, will be payable by the company over the total remuneration of C.L. van Schooten. The estimate was revised to EUR 2,405,224 (2020 estimate: EUR 543,883). The calculation of the tax levy due by the company includes the taxable value of the long-term equity-based incentive. That taxable value depends on the final number of shares that will be delivered to C.L. van Schooten in 2022 and 2023 (pending final achievement of performance conditions) and the company's share price upon delivery of the shares (these equity rights were granted in 2019 and 2020).

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 684,500 (2020: EUR 631,118).

Remuneration of Key Management - the Supervisory Board in EUR

	2020 [1]	2021
Membership	504,000	495,000
Committees	114,618	162,000
Other compensation [2]	12,500	27,500
Total costs	**631,118**	**684,500**

1 Includes a 20% COVID-19 reduction in Q2 2020.
2 Relate to the allowance for (inter-)continental travel.

29 Financial risk management

Signify is exposed to several types of financial risks, as they arise in the normal course of business: interest rate risk, liquidity risk, currency risk, commodity price risk, credit risk and country risk. This note comprises the disclosures on Signify's financial risk management objectives, policies and procedures to monitor and manage these risks.

The summary of all financial assets and liabilities, including their classification and measurement and fair value hierarchy is presented below:

	Carried at	Gross amount recognized on the balance sheet	Amounts not offset on the balance sheet, but are subject to master netting arrangements	Net amount	Fair value hierarchy level	Estimated fair value [1]
Balance as at December 31, 2020						
Non-current financial assets [1]	amortised cost	34	–	34		34
Unquoted equity shares	fair value (FVOCI)	3	–	3	3	3
Trade and other receivables [1]	amortised cost	1,140	–	1,140		1,140
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	122	(41)	81	2	122
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	–	–	–	3	9
Cash and cash equivalents		1,033	–	1,033		1,033
Debt (Eurobonds)	amortised cost	(1,262)	–	(1,262)	1	(1,378)
Debt (excluding Eurobonds) [1]	amortised cost	(1,046)	–	(1,046)	2	(1,046)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(45)	41	(4)	2	(45)
Trade and other payables [1]	amortised cost	(1,727)	–	(1,727)		(1,727)
Contingent considerations	fair value (FVTPL)	(4)	–	(4)	3	(4)
Balance as at December 31, 2021						
Non-current financial assets [1]	amortised cost	37	–	37		37
Unquoted equity shares	fair value (FVOCI)	3	–	3	3	3
Trade and other receivables [1]	amortised cost	1,183	–	1,183		1,183
Derivative financial assets designated as hedging instruments	fair value (FVTPL)	59	(30)	28	2	59
Derivative financial assets not designated as hedging instruments	fair value (FVTPL)	18	–	18	3	25
Cash and cash equivalents		851	–	851		851
Debt (Eurobonds)	amortised cost	(1,265)	–	(1,265)	1	(1,355)
Debt (excluding Eurobonds) [1]	amortised cost	(743)	–	(743)	2	(743)
Derivative financial liabilities designated as hedging instruments	fair value (FVTPL)	(45)	30	(14)	2	(45)
Trade and other payables [1]	amortised cost	(2,332)	–	(2,332)		(2,332)
Contingent considerations	fair value (FVTPL)	(2)	–	(2)	3	(2)

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

The estimated fair value of financial instruments has been determined by Signify using available market information and appropriate valuation methods. The estimates presented are not necessarily indicative of the amounts that will ultimately be realized by Signify upon maturity or disposal. The use of market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

The following hierarchy is applied to classify the financial assets and liabilities:

Level 1

Instruments included in Level 1 are comprised primarily of listed Eurobonds classified as financial liabilities at amortized cost. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in Level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. Please refer to note 2, Significant accounting policies, for further details.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

Interest rate risk

Interest rate risk is the risk of the fair value or future cash flows of a financial instrument fluctuating because of changes in the market interest rates. Financial instruments included in the debt position create an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results.

Signify monitors interest rate coverage, short-term and long-term interest rate developments and has the flexibility to opt for different short-term interest periods for the variable debt instruments at roll-over dates and/or could enter into derivative financial instruments to fix interest rates for a certain period of time. As of December 31, 2021, Signify had a ratio of fixed-rate debt to total outstanding debt of approximately 75% (2020: 65%).

A sensitivity analysis conducted in January 2022 shows that if interest rates were to increase instantaneously by 1% from their level of December 31, 2021, with all other variables held constant, the annualized net interest expense would decrease by EUR 6 million. This impact was based on the outstanding net floating debt position as of December 31, 2021.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Details on the COVID-19 impact are disclosed in note 1, Basis of preparation.

Liquidity risk for Signify is monitored through the Treasury Risk Committee which tracks the development of the actual cash flow position and uses input from a number of sources in order to forecast the overall liquidity position.

The table below analyzes Signify's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. Interest on Long-term debt is based on floating rate adjustments according to market expectations.

		Payments due by period		
	Total	Less than 1 year	Between 1 and 5 years	Over 5 years
Debt, including bank overdrafts	1,759	15	1,150	594
Interest on debt	120	30	84	6
Trade and other payables	2,334	2,334	–	–
Lease liability	249	62	155	32
Derivative liabilities	45	44	1	–
Off-balance sheet commitments	125	30	94	–
Purchase obligations	102	59	43	–
Contractual cash obligations	**4,733**	**2,574**	**1,527**	**632**
Revolving credit facility (RCF)	500	–	–	–

Signify invests surplus cash primarily in money market deposits with investment graded financial institutions, and with maturities up to three months, to ensure sufficient liquidity is available to meet liabilities when due.

Signify has various sources to mitigate liquidity risk. Signify pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs. The table below shows details of cash and cash equivalents and bank overdrafts as of the reporting date:

	2020	2021
Cash at banks and in hand	315	403
Short-term deposits	700	432
Other cash equivalents	17	17
Cash and cash equivalents	**1,033**	**851**
Bank overdrafts	(3)	(4)
Cash and cash equivalents and bank overdrafts	**1,030**	**847**

Signify has a EUR 500 million revolving credit facility that can be used for general purposes. As of December 31, 2021, Signify did not have any amounts drawn under this facility.

Currency risk

Currency risk is the risk that reported financial performance, or the fair value or future cash flows of a financial instrument, will fluctuate because of changes in foreign exchange rates. Signify operates in many countries and currencies and therefore currency fluctuations may inevitably impact its financial results. Signify is exposed to currency risk in the following areas:

- Transaction exposures related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions.
- Financing exposure arising from foreign currency intercompany and external debt and deposits.
- Translation exposure of net income in foreign entities.
- Translation exposure of foreign currency denominated equity invested in consolidated companies.
- Translation exposure to equity interests in non-functional-currency investments in associates and financial assets at fair value.

It is Signify's policy to reduce the volatility caused by foreign currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign currency sales and purchases. In general, net anticipated exposures are hedged during a period of 15 months in layers of 20% up to a hedge ratio of 80%, using derivatives.

Signify's policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Signify from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

The following table outlines the estimated nominal value in millions of EUR for transaction exposures and related hedges for Signify's most significant currency exposures:

	Receivables / Sales		Payables / Purchases	
	Exposure	Hedges	Exposure	Hedges
Balance as at December 31				
Exposure currency				
CNY	12	(12)	(1,117)	784
USD	1,251	(837)	(177)	175
GBP	123	(78)	–	–
EUR [1]	59	(59)	(12)	12
CAD	110	(73)	–	–
SEK	74	(44)	–	–
CHF	68	(42)	–	–
AUD	52	(35)	–	–
NOK	53	(32)	–	–
SGD	37	(23)	–	–
NZD	24	(16)	–	–
RON	25	(16)	–	–
CZK	24	(15)	–	–
PLN	67	(67)	(133)	95
Others	46	(46)	(19)	19
Total 2021	**2,024**	**(1,394)**	**(1,458)**	**1,085**
Total 2020	**1,866**	**(1,177)**	**(1,471)**	**920**

[1] EUR exposures in non EUR denominated functional currencies.

As of December 31, 2021, a loss of EUR 3 million was deferred in equity as a result of these hedges (2020: gain of EUR 22 million). The result deferred in equity will be released to earnings mostly during 2022 at the time when the related hedged transaction affects the Consolidated statement of income. During 2021, EUR nil million (2020: 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, 2021, was an unrealized asset of EUR 2 million (2020: asset EUR 23 million). An instantaneous 10% increase in the value of the euro against all currencies, with all other variables held constant, would lead to an increase of EUR 29 million in the value of the derivatives. This increase includes a gain of EUR 4 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining gain of

EUR 25 million would be recognized in equity to the extent that the cash flow hedges were effective.

Foreign exchange exposure also arises from intercompany loans and deposits. Where Signify enters into such arrangements the financing is generally provided in the functional currency of the subsidiary. The currency of Signify's external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits or synthetically by using foreign exchange derivatives. In certain cases, where Signify subsidiaries may also have external foreign currency debt or liquid assets, these exposures are also hedged using foreign exchange derivatives. The fair value of these hedges as of December 31, 2021 was an unrealized asset of EUR 8 million (2020: asset of EUR 2 million). An instantaneous 10% increase in the value of euro against all currencies, with all other variables held constant, would lead to a decrease of EUR 21 million in the value of the derivatives.

As of December 31, 2021, Signify continued to hedge part of its investment in one of its foreign subsidiaries which includes Cooper Lighting by entering into foreign currency forward contracts of nominal amount of USD 150 million. This hedge mitigates foreign currency translation risk arising from the net assets of the subsidiary. This hedge was fully effective, as such there was no ineffectiveness recognized in profit and loss in 2021. As at 31 December 2021, the market value of these forward contracts was an asset of EUR 4 million. A 10% increase in the value of the EUR against USD would lead to an increase of EUR 12 million in the fair value of derivatives that end up in the Currency translation differences within Equity.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Signify is a purchaser of certain base metals, precious metals and energy. Signify could hedge certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. As of December 31, 2021, Signify had EUR 17 million of commodity derivatives recognized in the Statement of financial position (2020: EUR nil million).

Change of the commodity price by 10% will lead to the commodity derivatives value change of EUR 7 million (2020: EUR 5 million).

Credit risk

Credit risk represents the loss that would be recognized at the reporting date, if counterparties failed completely to perform their payment obligations as contracted. Credit risk is present within Signify trade and other receivables and contract assets. To have better insights into the credit exposures, Signify performs ongoing evaluations of the financial and non-financial condition of its customers and adjusts credit limits when appropriate. In instances where the creditworthiness of a customer is determined not to be sufficient to grant the credit limit required, there are a number of mitigation tools that can be utilized to close the gap, including reducing payment terms, cash on delivery, prepayments and pledges on assets.

Signify invests available cash and cash equivalents and enters into financial derivative instruments with various financial institutions and is exposed to credit risk with these counterparties. Signify does not enter into any financial derivative instruments to protect against default by financial institutions.

Where possible, Signify requires all financial institutions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a solid credit rating from generally accepted rating agencies. Signify also regularly monitors the development of the credit risk of its financial counterparties.

Signify minimizes this risk by limiting the deposits made with any single bank and by making deposits, the majority of which is with banks that have strong credit ratings.

Maximum credit risk exposure for Signify equals carrying amounts of all financial assets recognized in the Statement of financial position plus off-balance sheet guarantees provided.

Country risk

Country risk is the risk that political, legal, or economic developments in a single country could adversely impact our performance. The country risk per country is defined as the sum of the equity of all subsidiaries and associated companies in country cross-border transactions, such as intercompany loans, accounts receivable from third parties and intercompany accounts receivable.

As of December 31, 2021, Signify had country risk exposure of EUR 2.6 billion in the United States, EUR 1.1 billion in the Netherlands, EUR 566 million in China including Hong Kong and EUR 508 million in Belgium. Countries where the risk exceeds EUR 200 million but was less than EUR 500 million are Poland (EUR 491 million) and Saudi Arabia (EUR 206 million). Countries where the risk exceeded EUR 50 million but was less than EUR 200 million are Spain, Mexico, France, Canada, India, Australia and the United Kingdom. The degree of risk of a country is taken into account when new investments are considered. Signify does not, however, use financial derivative instruments to hedge country risk, except for the net investment hedge as described in the currency risk.

30 Events after the balance sheet date

On February 9, 2022, Signify announced that it had entered into a definitive agreement with Australian based Gerard Lighting Group to acquire their Pierlite business. The acquisition will strengthen Signify's position in the Australian and New Zealand lighting markets and provide us with growth opportunities – including those that exist between Pierlite's luminaire portfolios and Signify's connected lighting solutions. The acquisition is expected to close in the second quarter, subject to customary closing conditions.

No other subsequent events occurred that are material to Signify.

15 Signify N.V. financial statements

Introduction

Statutory financial statements

The sections Consolidated financial statements and Signify N.V. financial statements contain the statutory financial statements of Signify N.V. (the ‘Company’).

A description of the activities of the Company, its subsidiaries and Company structure are included in the Consolidated financial statements. The corporate seat of the Company is in Eindhoven, the Netherlands, and its registered office is at High Tech Campus 48, 5656 AE Eindhoven, the Netherlands. Signify N.V. is registered in the Commercial Register of the Chamber of Commerce under number 65220692.

A list of all Signify N.V. subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), forms part of the notes to the statutory financial statements and is deposited at the Chamber of Commerce in Eindhoven, the Netherlands.

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply the International Financial Reporting Standards (IFRS) as endorsed by the European Union, in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in chapter 14, Consolidated financial statements, note 2, Significant accounting policies, of this Annual Report and are deemed incorporated and repeated herein by reference. Investments in subsidiaries in the Company financial statements are accounted for using the equity method.

The Statement of financial position included in these Company financial statements has been prepared before the appropriation of result.

15.1 Statement of income

Statement of income in millions of EUR
For the years ended December 31

	Note	2020	2021
Other income		1	–
Financial income [1]		9	5
Financial expenses		(44)	(38)
Share in results of subsidiaries		360	430
Net income	A	**325**	**397**

[1] In 2020, Financial income was presented as part of the line-item Financial expenses.

15.2 Statement of financial position before appropriation of results

Statement of financial position before appropriation of results in millions of EUR As at December 31

	Note	2020	2021
Non-current assets			
Financial assets	C	4,151	4,221
Total non-current assets		**4,151**	**4,221**
Current assets			
Amounts due from subsidiaries		137	4
Total current assets		**137**	**4**
Total assets		**4,289**	**4,225**
Shareholders' equity	D		
Share Capital		1	1
Share premium		2,201	2,174
Legal reserve: currency translation differences		(337)	(80)
Legal reserve: cash flow hedges		17	(2)
Legal reserve: other		157	213
Other reserve: treasury shares		(74)	(126)
Other reserve: retained earnings		(95)	(119)
Net income		325	397
Total shareholders' equity		**2,196**	**2,459**
Non-current liabilities			
Debt	E	2,056	1,743
Provisions		–	1
Total non-current liabilities		**2,056**	**1,745**
Current liabilities			
Provisions		1	1
Other liabilities		15	–
Trade and other payables		21	20
Total current liabilities		**37**	**21**
Total liabilities and shareholders' equity		**4,289**	**4,225**

15.3 Statement of changes in equity

Statement of changes in equity
in millions of EUR

			Legal reserves			Other reserves			
	Share capital	Share premium	Currency translation differences	Cash flow hedges	Other	Treasury shares	Retained earnings	Net income	Total shareholders' equity
Balance as at January 1, 2020	**1**	**2,195**	**7**	**(7)**	**181**	**(68)**	**(390)**	**262**	**2,181**
Appropriation of prior year result	–	–	–	–	–	–	262	(262)	–
Net income	–	–	–	–	–	–	–	325	325
Net current period change	–	–	(343)	24		–	11	–	(309)
Legal reserves reclassifications	–	–	–	–	(24)	–	24	–	–
Purchase of Treasury shares	–	–	–	–	–	(38)	–	–	(38)
Delivery of Treasury shares	–	(30)	–	–	–	32	(2)	–	–
Share-based compensation plans	–	34	–	–	–	–	–	–	34
Income tax share-based compensation plans	–	2	–	–	–	–	–	–	2
Balance as at December 31, 2020	**1**	**2,201**	**(337)**	**17**	**157**	**(74)**	**(95)**	**325**	**2,196**
Balance as at January 1, 2021	**1**	**2,201**	**(337)**	**17**	**157**	**(74)**	**(95)**	**325**	**2,196**
Appropriation of prior year result	–	–	–	–	–	–	325	(325)	–
Net income	–	–	–	–	–	–	–	397	397
Net current period change	–	–	257	(20)	–	–	16	–	253
Legal reserves reclassifications	–	–	–	–	56	–	(56)	–	–
Dividend distributed	–	–	–	–	–	–	(343)	–	(343)
Purchase of Treasury shares	–	–	–	–	–	(83)	7	–	(77)
Delivery of Treasury shares	–	(60)	–	–	–	32	28	–	–
Share-based compensation plans	–	31	–	–	–	–	–	–	31
Income tax share-based compensation plans	–	2	–	–	–	–	–	–	2
Balance as at December 31, 2021	**1**	**2,174**	**(80)**	**(2)**	**213**	**(126)**	**(119)**	**397**	**2,459**

15.4 Notes to the Company financial statements

In millions of EUR unless otherwise stated

A Statement of income

Other income consists of remuneration costs of the directors of the Company and the Supervisory Board which were mostly recharged to the subsidiaries of the Company.

Financial income of EUR 5 million (2020: EUR 9 million) relates mainly to interest income on a loan of USD 500 million to one of its subsidiaries. Financial expenses of EUR 38 million (2020: 44 million) relates mainly to interest paid on Debt and related amortization of expenses.

Share in results of subsidiaries represents the share of the Company in the results of its affiliated companies.

B Audit fees

A summary of Audit fees from Ernst & Young Accountants LLP is shown below.

	2020	2021
Audit fees [1]	6.8	6.4
• consolidated financial statements	4.4	4.0
• statutory financial statements	2.4	2.4
Audit-related fees	0.5	0.4
• sustainability assurance	0.3	0.3
• other	0.2	0.1
Total [2]	**7.3**	**6.8**

[1] The audit fees included in 2021 represent the fees in relation to the audit of the 2021 financial statements.
[2] Fees charged by the Dutch organization of EY were EUR 3.2 million (2020: 3.3 million).

C Financial assets

The Company has one directly-owned subsidiary, Signify Holding B.V. This investment is presented as a financial asset in the Statement of financial position using the equity method. Goodwill paid upon acquisition of investments in subsidiaries is included in the net equity value of the investment and is not shown separately on the face of the Statement of financial position.

In 2020, the Company entered into an uncommitted revolving credit facility agreement of USD 500 million with one of its subsidiaries. The available credit facility amounted to EUR 442 million as at December 31, 2021, (2020: EUR 407 million) and bears interest at LIBOR plus a margin of 0.875% per annum. The translation differences upon revaluation to EUR for this inter-company loan are partly hedged and partly mitigated by the revaluation impact of the USD debt. For further details refer to note E, Debt.

The translation differences in 2021 of EUR 293 million (2020: negative translation of EUR 391 million) related primarily to the impact of translating US dollar-denominated investments into euros.

The following table shows the movements in Financial assets.

	Investments	Loans	Total
Balance as at January 1, 2020	**2,375**	**–**	**2,375**
Capital contributions / additions	1,300	454	1,754
Share in results of subsidiaries	360	–	360
Translation differences	(343)	(47)	(391)
Other movements	53	–	53
Balance as at December 31, 2020	**3,745**	**407**	**4,151**
Dividends received	(632)	–	(632)
Share in results of subsidiaries	430	–	430
Translation differences	257	35	293
Other movements	(21)	–	(21)
Balance as at December 31, 2021	**3,779**	**442**	**4,221**

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, 2021, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (2020: 128,344,238).

As a defense measure, Stichting Continuïteit Signify, a foundation organized under the laws of the Netherlands, has been granted the right to acquire preference shares in the Company. As at December 31, 2021, this right had not been exercised therefore no preference shares have been issued.

Dividend distribution

A proposal will be submitted to the 2022 Annual General meeting of Shareholders to pay a dividend of EUR 1.45 per ordinary share, in cash, from the 2021 net income.

In June 2021, the Company settled an extraordinary dividend of EUR 1.35 per ordinary share, representing a total value of EUR 169 million including costs. In addition, the Company also settled the regular dividend of EUR 1.40 per ordinary share, representing a total value of EUR 175 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

	2020	2021
Balance as at January 1	**125,938,631**	**125,581,371**
Purchase of treasury shares	(1,333,418)	(1,937,489)
Delivery of treasury shares	976,158	1,258,122
Balance as at December 31	**125,581,371**	**124,902,004**

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

	2020	2021
Shares acquired	1,333,418	1,937,489
Average market price	EUR 28.21	EUR 43.08
Amount paid	EUR 38 million	EUR 83 million
Shares delivered	976,158	1,258,122
Average price (FIFO)	EUR 32.66	EUR 25.38
Cost of delivered shares	EUR 32 million	EUR 32 million
Total shares in treasury at year-end	**2,762,867**	**3,442,234**
Total cost	**EUR 74 million**	**EUR 126 million**

Legal reserves

As at December 31, 2021, legal reserves related to unrealized losses in currency translation of EUR 80 million, unrealized losses related to cash flow hedges of EUR 2 million and included in other, the 'affiliated companies' reserve of EUR 143 million, capitalized development costs reserve of EUR 53 million, revaluation reserve of EUR 14 million and other reserves of EUR 3 million.

The item 'affiliated companies' reserve relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2020, legal reserves related to unrealized losses in currency translation of EUR 337 million, unrealized gains related to cash flow hedges of EUR 17 million and included in other, the 'affiliated companies' reserve of EUR 126 million, capitalized development costs reserve of EUR 28 million and other reserves of EUR 3 million.

Limitations in the distribution of shareholders' equity

As at December 31, 2021, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 214 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 210 million and other reserves of EUR 3 million. The unrealized losses related to currency translation differences of EUR 80 million and cash flow hedges of EUR 2 million which although qualifying as legal reserves, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2021, amounted to EUR 2,245 million (2020: EUR 2,021 million).

As at December 31, 2020, pursuant to Dutch law, certain limitations existed relating to the distribution of shareholders' equity of EUR 176 million. Such limitations relate to ordinary shares of EUR 1 million, legal reserves required by Dutch law of EUR 154 million, other reserves of EUR 3 million and unrealized gains related to cash flow hedges of EUR 17 million. The unrealized losses related to currency translation of EUR 337 million, which although qualifying as a legal reserve, reduce the distributable amount by their nature.

E Debt

Term loan structure and a revolving credit facility

During 2021, Signify had a net reduction in its long-term loans of EUR 354 million. As of December 31, 2021, the Company had outstanding long-term loans amounting to EUR 280 million maturing in November 2024 and USD 225 million maturing in January 2025. In addition, the revolving credit facility (RCF) of EUR 500 million was extended to January 2027.

The EUR term loan bears interest at a variable rate based on the relevant applicable EURIBOR plus a fixed margin of 0.15%. The USD term loan bears interest at a variable rate based on the relevant applicable USD LIBOR with zero floor plus a margin. As at December 31, 2021, the margin on the USD term loan was 0.75% and is subject to change, depending on the public credit rating of Signify assigned by rating agencies.

The term loans and RCF agreement include a financial covenant providing that Signify maintains a net leverage ratio of no greater than 3.5x. The net leverage ratio may temporarily increase to 4.0x within 12 months of the closing of material acquisitions. The covenant does not apply if Signify has at least one investment grade rating, which is currently the case, as Signify has two investment grade ratings. As at December 31, 2021, the value of the loans amounted to EUR 479 million (2020: EUR 794 million).

Eurobonds

As of December 31, 2021, Signify had outstanding EUR 675 million of fixed rate notes due in May 2024 with an annual coupon of 2.000% and EUR 600 million of fixed rate notes due in May 2027 with an annual coupon of 2.375%. As at December 31, 2021, the value of the Eurobonds amounted to EUR 1,265 million (2020: EUR 1,262 million).

For the movements in debt refer to the table below.

	Term loans	Eurobonds	Bridge Loan	Total
Balance as at January 1, 2020	**–**	**–**	**–**	**–**
New borrowings	1,194	1,270	1,261	3,725
Repayments	(350)	–	(1,291)	(1,641)
Translation differences	(47)	–	30	(18)
Other movements	(2)	(8)	–	(11)
Balance as at December 31, 2020	**794**	**1,262**	**–**	**2,056**
New borrowings	630	–	–	630
Repayments	(984)	–	–	(984)
Translation differences	36	–	–	36
Other movements	2	3	–	5
Balance as at December 31, 2021	**479**	**1,265**	**–**	**1,743**

F Employees

The number of persons employed by the Company at year-end 2021 was three (2020: four); all were employed in the Netherlands. For the remuneration of past and present members of both the Board of Management and the Supervisory Board, refer to chapter 14, Consolidated financial statements, note 28, Information on remuneration, of this Annual Report, which is deemed incorporated and repeated herein by reference.

G Contingent liabilities not appearing in the balance sheet

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of other group companies in the Netherlands. The liabilities of these companies to third parties amounted to EUR 756 million as at December 31, 2021, (2020: EUR 508 million).

There have been no other general guarantees or credit guarantees given on behalf of unconsolidated companies and third-parties.

For corporate income tax purposes, the Company is the parent of a fiscal unity that contains the most significant Dutch wholly-owned group companies. The Company is therefore jointly and severally liable for the corporate income tax liabilities of the tax unity.

H Events after the balance sheet date

For the disclosure of events after the balance sheet date, reference is made in chapter 14, Consolidated financial statements, note 30, Events after the balance sheet date, of this Annual Report, which is deemed incorporated and repeated herein by reference.

On February 22, 2022, 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 17, 2022.

February 22, 2022

Board of Management
Eric Rondolat
Javier van Engelen
Maria Letizia Mariani

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

16 Sustainability statements

16.1 Approach to sustainability reporting

Our sustainability program Brighter Lives, Better World 2025 is not a standalone program. It is embedded in our purpose and integral to our strategy and the way we do business. And we believe we have an important role to play in helping achieve the United Nations Sustainable Development Goals (SDGs). They have been our strategic compass in creating our Brighter Lives, Better World 2025 program and commitments. We report our contribution to six SDGs: 3 - Good health and well-being; 7 - Affordable and clean energy; 8 - Decent work and economic growth; 11 - Sustainable cities and communities; 12 - Responsible consumption and production; and 13 - Climate action. Through our activities, we contribute to the achievement of these SDGs.

We create value within the financial, environmental and social domains, and we have made our approach towards long-term value creation transparent by preparing this Annual Report with key elements of the Value Reporting Foundation's Integrated Reporting framework and reporting in accordance with the GRI Sustainability Reporting Standards.

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

At the core of our reporting approach is the value creation model. This model shows how our business activities depend on various financial, environmental, and social resources that are converted to outputs. Our activities and their outputs lead to outcomes in terms of the impact made on our stakeholders and society at large. Since 2017, Signify communicates its impacts in monetary terms, enabling more effective and efficient decision making and giving a holistic view on our most prominent risks and opportunities. It also provides further transparency to our stakeholders on company performance. By publishing the results of our analysis and being transparent on the methodology, we strive to contribute to developing a global standard for impact analysis.

Our external auditor Ernst & Young Accountants LLP (EY) has provided reasonable (highest level) assurance on our sustainability performance and sustainability statements in this Annual Report. To read the combined assurance statement, including detailed scope of assurance, 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 approach

Our materiality assessment is the first step towards defining our strategy. By identifying future trends and understanding stakeholders' perspectives at a global and local level, we are better able to manage the risks and opportunities that could impact our ability to create value in the long term.

We define materiality along two axes. The vertical axis captures the importance of each topic for external and internal stakeholders. The horizontal axis captures both our company's significant impacts on the economy, the environment, and society, and the impact of externalities on our business. Assessing both aspects enables us to prioritize and focus on the most relevant issues in terms of our efforts as well as reporting progress in this Annual Report. Our materiality assessment was conducted using the GRI Standards' principles for defining report content while integrating the concept of double materiality.

As a first step in our materiality assessment, we use different sources of information to identify possible material topics. This includes external sources (media and trends analysis, on-going stakeholder engagement insights) as well as internal input. For the first time in 2021, we integrated the top risks and opportunities identified during Signify's annual risk workshop. We translated top risks into material topics to offer a complete overview of our financial and non-financial risks and opportunities and improve the link between sustainability, risk management, and strategy. By the end of this first phase, we can list all material topics for Signify (17 topics in 2021). To prioritize these topics, Signify organizes dedicated stakeholder engagement activities. In 2021, this consisted of an online survey reaching out to 550 internal and external stakeholders (response rate of 22%) and internal strategic discussions. At the end of this process, we are able to identify the most material topics Signify should be reported on.

Stakeholder engagement

On-going discussions

We engage with stakeholders considered most relevant to our company including customers, employees, suppliers, investors and analysts, municipalities and governments, and civil society organizations. These stakeholders are most likely to be impacted by our activities and have the most influence on achieving our commitments. Capturing perspectives from multiple stakeholder groups enables us to gain broader insights into value creation and contributes to the definition of our future strategy and plans.

In 2021, part of Signify's strategic stakeholder engagements focused on the ambition levels, interrelations and alignment of global and regional 2030 and 2050 climate goals with the economic recovery programs of the world's major economies. We participated in

Overview stakeholder engagement activities (non-exhaustive)

Stakeholder group	Stakeholder engagement processes	Exemplary topics discussed
Customers	Business development, lean value chain projects, consumer panels, Net Promoter Scores, social media, customer surveys, key account management, sustainability exchanges with customers	Growth for sustainability & innovation Satisfaction rates ESG-performance
Employees	Regular meetings, quarterly team surveys, bi-annual employee development process, quarterly update webinars and sustainability engagement campaigns	Strategic alignment sessions Training & Development Diversity, equity and inclusion
Investors and analysts	Virtual roadshows, (ESG) investor conferences, investor webcasts, investor relations website, investors' perception study	Strategic alignment sessions ESG-performance
Suppliers	Supplier development and quality activities including topical training sessions, industry working groups such as EPRM and RBA, and the commodity management, supplier quality and procurement engineering functions	Sustainability performance Peer-learning
Governments, municipalities	Annual innovation experience, research projects, policy and legislative developments, business development, GreenSwitch and Brighten America programs	Sustainable cities Energy efficiency Sustainable innovation
Civil society organizations	Partnerships with NGOs, cross-sector (multi-stakeholder), projects, supplier sustainability stakeholder day, our social investment program, the Signify Foundation	Social impact of light Sustainable operations Growth for sustainability

the three international climate conferences (London Climate Action Week, Climate Week NYC and COP26 in Glasgow). During each of these conferences, we issued a call for action highlighting the multiple benefits of switching to connected LED lighting and the increase of infrastructure renovation rates to 3% per year.

Throughout the year, we were deeply involved in the European Green Deal and Recovery process, with all of our markets messaging and exploring support and opportunities in the National Recovery & Resilience Plans (NRRP's). We have launched a dedicated "Green Switch" program, while mainly through our partnerships with the Corporate Leaders Group Europe, the European Alliance to Save Energy and the World Economic Forum, we were involved in the concurrent policy developments that led to the creation of the "Fit for 55" package. The goal of this initiative is for the EU to reduce GHG emissions by at least 55% by 2030. Through NEMA and the Business Council for Sustainable Energy, we contributed to the "Build Back Better" economic recovery planning in the USA leading to the encouraging approval of the American Infrastructure and Jobs Act in November 2021.

In 2021, we continued to hold memberships and be active in many organizations, including the Carbon Disclosure Project (CDP), the World Economic Forum (WEF), the Responsible Business Alliance (RBA), and The Climate Group.

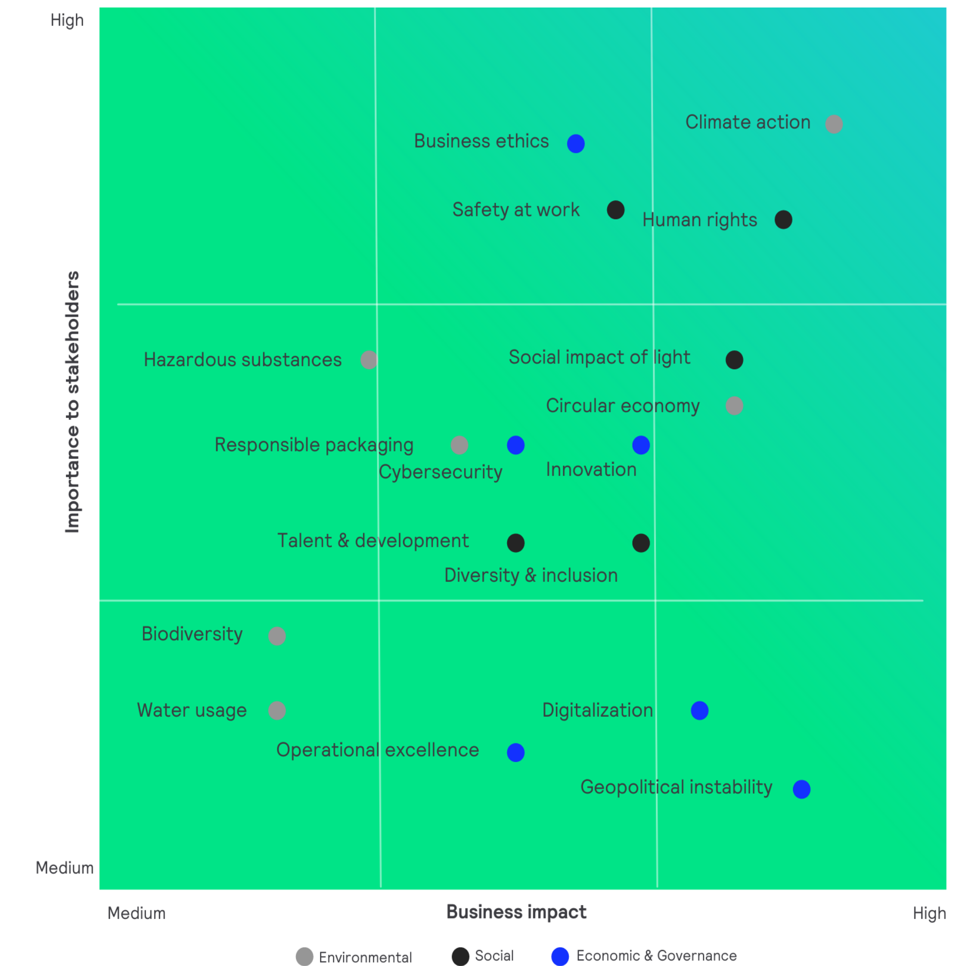
Materiality assessment engagement
For the dedicated stakeholder engagement related to our 2021 materiality assessment, we defined stakeholder representatives from each of the six identified groups: customers, employees, investors and analysts, suppliers, governments and municipalities and civil society organizations. Representatives have been selected based on expertise, constituency and geography. The broad range of stakeholders minimizes bias and creates a diverse insight.
Stakeholders' expectations and inputs are captured at all phases of our materiality assessment. Through different engagement channels, we inform our stakeholders about our activities, the measures taken and the results.

2021 materiality assessment: conclusions

In 2021, as an outcome of the assessment, we confirm that Climate action and Human rights are our two most material topics. Business ethics and Safety at work remain very important and Signify has robust processes in place. Social impact of light, Circular economy, Digitalization, and Geopolitical instability are important for Signify and are positioned on the right-hand side of the matrix. Biodiversity and Water are both in the lower quadrant of this matrix and are our two least material topics. The result of the materiality assessment has been reviewed by the Leadership Team and the Supervisory Board.

The details of our 2021 materiality assessment, as well as the definition of each material topic can be found in the Sustainability Supplements to the Annual Report, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Materiality matrix



Signify material topics – The table showcases the link between our sustainability program, our contribution to the SDGs, and our material topics and their boundaries.

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

In the sections that follow, we explain how we manage social and environmental material topics in our operations, supply chain and products.

16.1.2 Sustainability governance

In 2021, the Sustainability and the Environment, Health & Safety functions headed respectively by Maurice Loosschilder and Johan de Fraye consist of global, regional and local sustainability professionals and fell under the responsibility of the Board of Management member and Chief Strategy & Sustainability Officer, Maria Letizia Mariani. Progress is reviewed on a quarterly basis by the Board of Management and the Leadership Team. During these meetings, progress on strategic programs is reviewed and corrective actions are taken when necessary.

Progress is also reviewed with the Supervisory Board on an annual basis. In addition, the results of our sustainability programs are communicated on a quarterly basis to Signify employees and on our website to external stakeholders.

Sustainability programs are embedded in the Signify organization and ways of working. Examples of departments that implement sustainability programs include sales, innovation, manufacturing, sourcing, and logistics. Targets on sustainability are set at a corporate, division and market levels.

16.1.3 Program targets

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

Program 2025 targets

	Doubling objectives	Continue and strengthen
Better World	Double the pace we achieve the 1.5°C scenario of the Paris Agreement	Carbon neutral operations & 100% renewable electricity
		Increase Climate action revenues to 72%
	Double our Circular revenues to 32%	Zero waste to landfill and sustainable packaging
Brighter Lives	Double our Brighter lives revenues to 32%	10 million lives lit through our Signify Foundation
	Double our % of women in leadership to 34%	Safe & healthy workplace with a TRC rate less than 0.30
		Supplier sustainability performance of 95%
		Minimum performance rate of 90%

Approved Science-Based Targets - 1.5 degrees scenario

	Baseline	Target 2030
Carbon emissions from scope 1 and scope 2	2015	70% reduction
Carbon emissions from scope 3 (use of product)	2015	30% reduction

Changes in targets, policies, definitions or scope are specified annually and 2021 is the first reporting year.

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.

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 2021 materiality assessment, a GRI Content Index, our Task Force on Climate-related Financial Disclosures (TCFD) reporting and to the E.U. Directive on non-financial information. In 2021, Signify re-committed to the United Nations Global Compact to advance 10 universal principles in the areas of human rights, labor, the environment, and anti-corruption efforts. This report also serves as our annual Communication on Progress (COP) towards abiding by these principles.

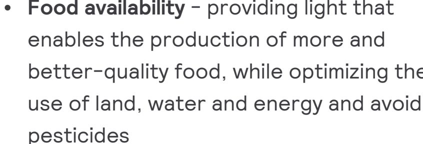
New Signify ventures and acquisitions are included in environmental and social disclosures to the extent that the integration process of these ventures has been finalized. The normative integration period is two years. Divestitures completed before December 31 of the book-year are excluded from environmental and social reporting. For our Brighter Lives, Better World 2025 doubling commitments, we use best estimates for 2019 as a base, including for Cooper Lighting and Klite. These acquisitions are included in our 2021 data but excluded from the reported 2019 and 2020 comparative figures.

16.2 Sustainable Innovation

Innovation is an important pillar of Signify's purpose: to unlock the extraordinary potential of light for brighter lives and a better world. Our sustainable products and systems must demonstrate proven measurable benefits in one or more of the eight sustainable focal areas (SFAs) compared to the relevant, regularly updated benchmark.

We have five Better World SFAs:
- **Energy & solar** - increasing energy efficiency of products, systems and services, and solar systems and solutions
- **Circularity** – optimally preserving value and avoiding waste via serviceable luminaires, circular components, intelligent assets, and circular services
- **Packaging** - reducing packaging weight and volume, increasing recycled content in packaging of professional products and eliminating the use of plastics in packaging of consumer products
- **Substances** - eliminating harmful substances
- **Weight & materials** - reducing product weight, selecting recycled and/or renewable materials, and increasing commonalities

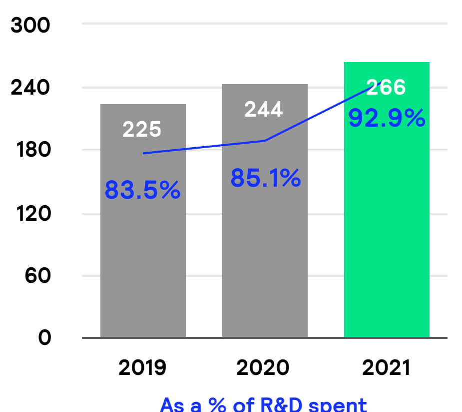
And three Brighter Lives SFAs:
- **Safety & security** - providing light that improves the safety of people in traffic, cities and houses and increases protection against cybercrime
- **Health & well-being** - supporting health, well-being, and performance of humans through unlocking the visual, biological, and emotional benefits of light
- **Food availability** - providing light that enables the production of more and better-quality food, while optimizing the use of land, water and energy and avoiding pesticides



Our sustainable innovations continue to transform the lighting industry. In 2021, we invested EUR 266 million in sustainable innovation which represents 92.9% of Signify R&D expenses (85.1% in 2020).

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

With the United Nations´ Sustainable Development Goals as our strategic compass, in 2020 we launched our new Brighter Lives, Better World 2025 sustainability program with even more ambitious goals. We are providing solutions that address some of the most important challenges of our time for brighter lives and a better world.

By the end of 2025, we will double our impact on society, creating brighter lives for all (versus baseline 2019). We will do this by doubling our Brighter lives revenues which benefit society by increasing food availability, security & safety and health & well-being. Additionally, we commit to double the percentage of women in leadership by the end of 2025. We will also strengthen our commitments to employee safety, sustainable supply chain and lives lit through the work of the Signify Foundation.

Mark van Bijsterveld,
Chief HR Officer, Signify

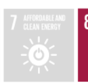
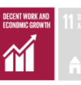
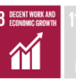
“While we continue our transformation journey, the digitalization of our industry, the impact of the global pandemic and new trends in the labor market continued to shape our environment in 2021. Creating a great place to work, where people belong, have an impact, and take pride in the company we build together, remains at the heart of our people vision. Our people priorities for 2021 were focused on creating a more diverse workforce and inclusive, equitable work environment, accelerating the reskilling of our workforce for Digital excellence, strengthening our Performance culture, and ensuring our competitiveness through creating a leaner corporate center.

In July 2021, as part of our DE&I journey, we signed the UN Women’s Empowerment Principles, a global initiative to promote and strengthen women in companies. We focused on attracting and hiring new, diverse talent. We continued to strengthen our learning culture with a dedication to develop all our employees. We also have increased our efforts to become a truly digital company by reshaping our digital organization while advancing on our strategic initiatives to digitize our customer interfaces, internal processes and products & services. Our people and their digital capabilities are essential enablers, which we have invested in to deliver on our digital ambition.

Given the long-term impact of the COVID-19 pandemic on the lighting industry, we have taken a proactive approach to adjust our cost base and improve our competitiveness through delayering our commercial organization and creating a leaner corporate center.

I am proud to be part of this fantastic team; together we have shown that also in difficult times our values guide us to create brighter lives and a better world."

16.3.1 Talent and Development

Employment

The total number of Signify employees (including Cooper Lighting and Klite) was 36,824 at the end of 2021, compared to 37,926 at year-end 2020. The data provided in sections 16.3.1 and 16.3.2 excludes employees from Klite, which has not been integrated in our human resources system.

Employees in FTEs

	2019	2020	2021
Signify total	32,005	37,926	36,824

Approximately 31% of our employees were employed by one of our three divisions, focusing on research & product development. 19% were employed in one of our clusters, focusing on sales & marketing. 42% of our employees were in operations, focusing on manufacturing, supply chain, quality and procurement. The remaining 9% worked in corporate functions. In line with the ongoing external workforce changes and digital transformation, we expect that the nature of the current workforce will continue to evolve.

In 2021, the total employee turnover was 54% (2020: 32%), with the vast majority related to turnover in factory and distribution staff in Mexico. The increase in turnover year-on-year was driven by stronger seasonal adjustments in production and labor volumes due to the logistical challenges this year, and is also reflecting the increasing labor market competitiveness we faced in 2021. Plans are executed to ensure our competitiveness in a highly dynamic labor market and to reduce factory turnover.

Employee turnover breakdown in 2021 in %

	Staff (majority in factory)	Professional	Mid-Level Professional	Senior-Level Professional	Leadership
of which voluntary	61%	9%	9%	6%	7%
of which involuntary	57%	6%	5%	6%	7%

Talent Management

With close to 37,000 talented and engaged employees all over the world, it is our people who are central to the effective execution of our strategy. We believe that we will maintain our position as the market leader in lighting by being a talent-builder, developing and growing people from within. We want our employees to have a challenging and rewarding work experience. One where they can grow and make an impact, where they gain new experiences and develop themselves.

Our approach to talent is to continuously build and develop employees' functional and leadership skills, whilst attracting new, diverse talent where critical capabilities are needed to strengthen our talent pool and achieve our strategic objectives.

In 2021, we welcomed 14,135 external talents to help bring our business vision to life, most of whom were employed in manufacturing functions. In line with our people philosophy to promote talent from within the organization, 85% of our senior management and leadership roles were filled internally

A robust global employer brand

In 2021, we continued to build on our refreshed Employer Value Proposition (EVP): Shine Brighter at Signify – together we unlock the extraordinary potential of light for brighter lives and a better world. The sustainability proposition is aligned with our Brighter Lives, Better World 2025 sustainability commitments, focusing more on continuous learning as well as DE&I.

In 2021, notable achievements include various certifications and awards in many countries, for example: Certification as Top Employer in the Netherlands, China, Brazil (Top Employer® Institute), Great Place to work (The Great Place to Work® Institute) in Singapore and India where we were also recognized as one of India's 100 Best Workplaces for Women and we made it to Mogul's list of Top 100 workplaces with the best D&I initiatives.

We directed our recruitment marketing campaigns on the most critical segments, to drive our transformation and growth and build talent pipelines. In 2021, we focused on reaching diverse technology, marketing, and sales candidates with relevant messaging customized per region and reflecting our EVP.

As part of our global talent acquisition strategy, we continue to attract talent from proven high-quality sources. In 2021, the main sources of hire were:

- Internal – Over the last few years we have filled approximately 30% of our vacancies internally.
- Employee referral – 24% of total external hires came from employee referrals.
- Sourcing – Our recruiters focus on proactively building talent pipelines and identifying talent, supported by recruitment marketing campaigns to increase awareness and drive conversion for-hard-to-fill roles.
- Signify careers website - Via our content strategy on social media "Humanizing our employer brand", employees shared why Signify is a great place to work, in alignment with our values and EVP and enabled us to outperform competition. We were nominated by LinkedIn as a finalist at the 2021 LinkedIn Best Employer Brand Award in the Netherlands.

The Signify global career website can be found at www.careers.signify.com.

Employee engagement & well-being

Employee engagement and well-being are key to our competitive performance and integral to our people vision: creating a workplace where people belong, have impact and take pride in the company we build together. Engaged employees are emotionally committed to our company. They help us to meet our business goals and sustainability commitments, whilst contributing to a dynamic, high-performance workplace.

In 2020 and 2021, the effects of lockdowns on mental health and well-being became clear. A stronger focus was brought in the learner domain for these essential topics. We also established a number of grassroots initiatives to create awareness on these topics:

- Meet2Grow sessions, organized by the learning team, with topics focused on resilience, emotional intelligence, and stress management.
- Healthy Breaks sessions, as short virtual energizing moments to connect colleagues on topics such as music and food.
- Virtual Coffee corners around the globe, as informal meetings for our leaders and employees to stay connected while working from home.

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

The Signify Team Survey poses questions in line with our company purpose and values, and it has proven to be a positive driver of employee engagement to increase team effectiveness. As a result, we have continued to run the Team survey every quarter to monitor employee engagement and take corrective actions when needed.

Through the Signify Team Survey, in 2021 91% of our employees said that we truly put our Customer First (2020: 88%); 87% of our employees acknowledged that we are Greater Together (2020: 89%); 85% of our employees felt that we are considered a Game Changer (2020: 90%) and 87% of our employees agreed that we have Passion for Results (2020: 81%). We noted that we need to continue improving in the areas of effectiveness and recognition. Initiatives to address our improvement points are driven at a team level via our Team dialogues, and we continue to track progress on these questions during our Quarterly Performance Reviews.

To measure employee satisfaction, the Net Promoter Score (NPS) methodology is used as part of our Team survey. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. In 2021, the Team survey had an average employee response rate of 84%, the highest level since we began running the survey (2020: 83%). At the end of 2021, we recorded an NPS score of 32 (Q4) and an average annual NPS score of 30 across the Signify population (2020: 25). Despite all the challenges we faced in 2021, our employee engagement score remained high and we continue to prioritize employee health and safety. Our eNPS score is in the top 25% of companies making up the ETS eNPS benchmark.

Learning & development

Learning continued to be a competitive advantage at Signify and plays an important role in attracting and retaining talent. Our personalized learning environments flourished as remote working became the new standard for many colleagues and customers around the globe. Empowering our employees and customers to upskill anytime, anywhere was a key focus in 2021.

A wide range of learning offerings supported the new challenges that our employees and customers had to overcome: How to stay connected with colleagues and customers? How to prepare for the (hybrid) future, where customer experiences are entirely digital and supported by technology?

People connected virtually on our knowledge-exchange platforms to consume or to share their knowledge with colleagues and customers. The learning experience platform Learning@Signify reached an active learner rate of 69% in Q4 2021. Additionally, we successfully launched a new customer learning platform and the Lighting Academy on LinkedIn reached over 12,000 followers.

In 2021, the average number of hours spent on training and development per FTE was 34 hours. Based on our value creation methodology, Signify has created EUR 4.03 million in value for our society through its employees' learning and development programs.

Live virtual connections as a substitute for formal classrooms

As a result of travel restrictions, people actively came together in virtual classrooms to practice new skill sets and listen to industry experts. In 2021, offering more online learning possibilities contributed to reduce emissions from air travel in 2021.

In our S-Talks training, over 6,000 customers and employees came together to be upskilled on System knowledge. During the year, we reached the 10,000 certificates milestone for the Let's Get Systemized program, launched in 2019. For example, the Dynalite training that used to be done face-to-face was wholly migrated to a Live Virtual Classroom that was upskilled via innovative virtual assessments and newly designed knowledge tests.

Another essential capability building training focused on Product Security, where Signify was awarded the IEC62443-4-1 security certification for its connected lighting development process by DEKRA. Product Management and Service Bootcamps were organized to grow the value-creation and selling capability.

Upskill for greater customer impact

In 2021, an innovative sales training program was developed and deployed for customer-facing roles in the organization. The Impact program focuses on how to stay relevant for our customers in today's reality, where everything is available online. It introduces a consultative and innovative approach to selling, with a greater emphasis on relationship building and trust. The program covers a range of fundamental skills, such as how to optimize the use of social media to connect more widely in the customer organization, how to build trust in the new virtual reality, and how to grow opportunities for sustainable growth. In total, 28 global training cohorts got involved in this 24-week training program in 2021.

Upskill for digitalization

How do we lead the digital transition and transform our business models for the future? In 2021, we continued to invest in digital reskilling designed around critical digital competencies such as: Robotic Process Automation (RPA), Data & Analytics (AI / Machine Learning / Data Analytics), Cloud Computing, Information & Cyber security, AGILE (SAFe & SCRUM),

eCommerce, critical thinking, adaptability and collaboration.

We launched a six-month Digital Leadership Learning and provided a complete array of exclusively developed, hand-picked self-learning courses covering different technical and behavioral skills to understand our digital aspirations and acquire conceptual awareness. In addition to self-paced learning modules, the journey had several interactive learning experiences covering:

- Master classes: Orchestrated by our Subject Matter Experts, with drop-in clinic dialogues
- Exploration of Outside-In dialogues: Sharing best practices with external executives and/or our internal teams in fire-chats
- Lunch and learn sessions: Peer dialogues to reflect and exchange ideas

Leadership development

Linked to the people pillar of our 5 Frontiers strategy – be a great place to work – we continued to ensure that our leadership development experiences are aligned to this and to our talent philosophy. In 2021, given the necessity to adjust to the travel limitations due to the COVID-19 pandemic, we continued to deliver on-site and virtual leadership programs in various parts of the world.

In 2021, we introduced the new iEDGE program to strengthen the leadership skills of our new people leaders. This ensured that our early talents and people leaders continued to get support in their roles for Signify to build a pipeline of future-ready leaders who can further take the company down paths of excellence and sustainable growth. We completed 2 EDGE I leadership programs and 3 iEDGE programs in 2021.

As we move into 2022, we will continue to improve the leadership offerings ensuring our leaders are equipped to lead, develop and inspire our people.

16.3.2 Diversity, equity & inclusion

At Signify, we believe that a diverse workforce and an inclusive work environment are essential to a thriving innovative business and long-term value creation. We are an equal opportunity employer committed to diversity, equity and inclusion in the workplace. This means we celebrate and foster an environment in which all ideas, perspectives, experiences and styles are highly valued and where all individuals are treated fairly with equal access to opportunities and resources. Diverse representation in our workforce is critical for our long-term success as a company. It enables us to understand, connect and communicate with our customers, end-users and stakeholders while helping us to attract and retain people who want to be part of our purpose to create brighter lives and a better world. Our diversity, equity and inclusion (DE&I) strategy reinforces our Greater Together value, enabling us to make better decisions, boost innovation, create growth, and strengthen our culture.

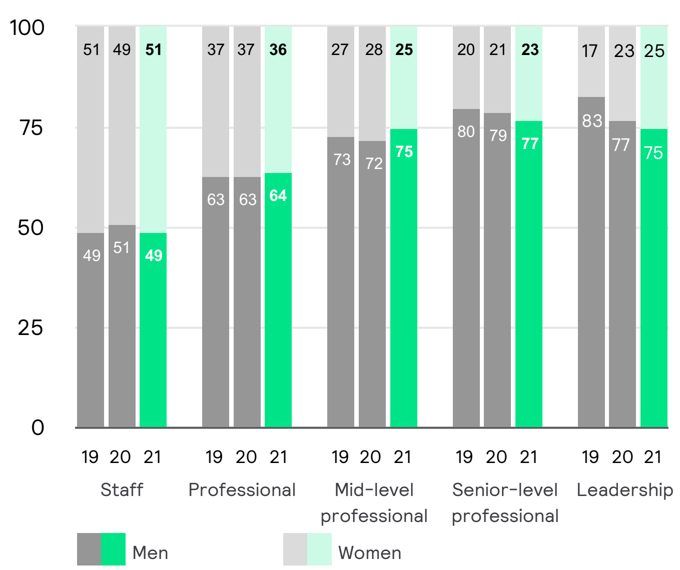
In 2021, we signed the United Nations (UN) Women Empowerment Principles, which underpins our commitment to double the percentage of women in leadership in our business to 34% by the end of 2025, and is another step towards ensuring equal opportunities, fairness, and impartiality for all. We also participated in the UN Global Compact Target Gender Equality Program, which helps us assess our practices from an equity and inclusion perspective and learn from peers to deepen implementation of Women Empowerment Principles.

We continued to reinforce our existing “2+1” approach i.e., global focus on two specific diversity dimensions of gender and generation with space for markets, divisions and functions to locally implement important and relevant initiatives. Some recent examples include DE&I Speaker Series and Courageous Conversations in the US, which fostered understanding on key concepts of DE&I. We also facilitated gender inclusion workshops in Market India to tackle unconscious biases based on gender and develop more inclusive leadership. Market France conducted a webinar session on disability inclusion to raise further awareness and understanding. Market UK&I facilitated a session to show their support and connection with the LGBTQ+ community. Market Benelux organized a session on mental well-being to support mental health inclusivity.

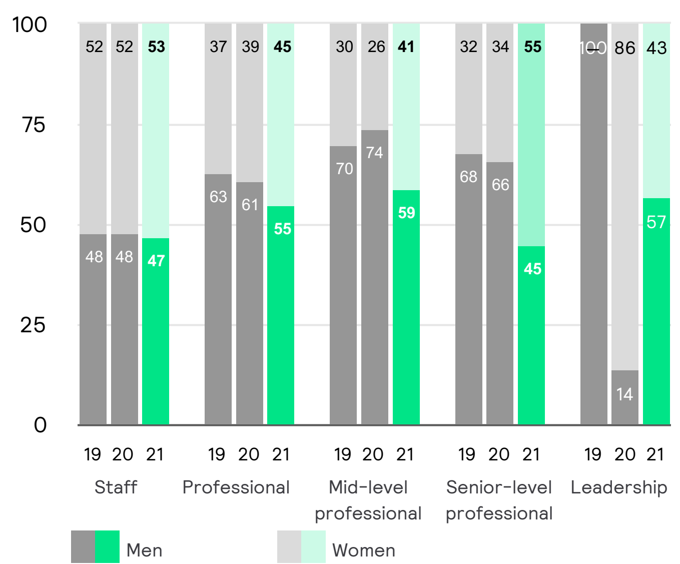
In 2021, our DE&I champions' network grew to around 160 members, who continue to drive actions locally and share best practices. Our DE&I Board, created in 2019, continued to structure and advance our strategy and roadmap. In 2021, we designed and deployed a new e-learning program on DE&I awareness to build a common language and understanding across the organization. At the end of the year, the global completion rate was 91%.

Globally, we recognize the need for a more diverse representation in the areas of gender and age, and we continually monitor related data to support our aim of reaching greater diversity representation in our organization. Over the past three years we have maintained the representation from different generations in our workforce. We plan to further improve our generational diversity in the future by increasing the inflow of early-career talents.

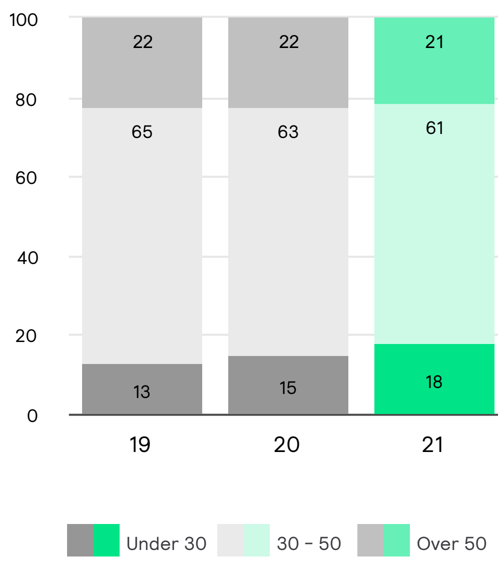
Gender diversity in %



New hire diversity in %



Employee per age category in %



In 2021, 40% of Signify employees were women and 25% of leadership roles (positions graded H22+ on the Hay grading scale) across the company were held by women. We are on track to achieving our 2025 targets of 34% women in leadership positions.

Additionally, in 2021, 51% of our new hires were women (2020: 49%). From a generational perspective, 18% of employees were 30 years old or under (2020: 15%). We have the ambition to attract and retain more early-career talents to build a sustainable talent pipeline. As a company, we are naturally diverse operating in 74 countries with more than 90 nationalities represented in our workforce. Globally, we recognize that we need a more diverse workforce, especially in management and executive positions. Therefore, over the last two years we have intensified on increasing the representation of women and early-career talents in our company. We are committed to improving diversity at all levels, attracting candidates from more diverse pipelines and driving development and internal mobility to increase representation across our company.

We believe in the importance of being intentional and accountable to advance DE&I and create brighter lives and a better world.

In 2022, we will publish the first dedicated company report on DE&I, which will give further visibility to our stakeholders on how we approach and drive our DE&I agenda.

Equal remuneration

Signify's commitment to equity and inclusion includes a policy for equal pay for equal, or substantially similar, work. Signify establishes formal pay policies and practices that govern hiring, benefit entitlements, annual merit, and promotional guidelines to ensure equity. Furthermore, Signify performs regular reviews which are designed to ensure compliance with our policy of equal pay for equal work and all local legal requirements in the countries in which we operate. Our regular review process includes a comprehensive statistical analysis of pay to employees across the world. Any statistically-significant variance within any employee group is promptly addressed.

16.3.3 Human rights

Our approach

Respecting human rights is a central foundation of the way we work. Our commitment to respecting and promoting human rights extends beyond our own operations, across our wider sphere of influence, including our supply chain. To that end, we integrate human rights considerations into our policies, processes, and practices.

Our Human Rights policy is based on the International Bill of Human Rights, the United Nations Global Compact Ten Principles, and the International Labour Organization's declaration on Fundamental Principles and Rights at work. Signify carries out continuous research and stakeholder engagement activities to identify the most salient ethical and social principles that govern our relationship with stakeholders worldwide.

The table on the right shows, in random order, the salient issues identified and the stakeholders they affect, as well as references to the sub-sections of this report that contain the progress that Signify made in addressing these issues.

Salient human rights issues

Salient human rights issues	Rights holders covered in our programs			Reference to our disclosures
	(3rd party) employees	Direct suppliers	Indirect suppliers	
1 Freedom of association and collective bargaining	•	•		16.3.5: Business ethics 16.3.3: Human Rights
2 Safe & healthy workplace	•	•		16.3.4: Safety at work 16.3.3: Human rights
3 Working hours	•	•		16.3.5: Business ethics 16.3.3: Human Rights
4 Equal employment opportunities and respect	•	•		16.3.2: Diversity, equity and inclusion 16.3.3: Human rights 16.3.5: Business ethics
5 Recognition and reward	•	•		16.3.2: Diversity, equity and inclusion 16.3.3: Human rights 16.3.5: Business ethics
6 Forced and child labor		•	•	16.3.3: Human rights
7 Employee development	•			16.3.1: Talent & Development 16.3.5: Business ethics

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 2021, employees were requested to complete e-learnings that helped interpret our Integrity Code. Dedicated communication campaigns urged everyone to speak-up and report concerns of possible violations. In those campaigns, the availability of our Ethics hotline was also highlighted. This initiative is an integrated and ongoing activity we have embedded in our business and business principles, which we redeploy on a regular basis and share with our new employees as part of their on-boarding program.

Based on a country risk assessment, multiple manufacturing locations were considered to have an increased likelihood of policy violations. Since 2017, these locations are requested to periodically fill in a dedicated self-assessment on human rights. In 2021, we identified in the sites of our newly-acquired operations some practices that are not yet aligned with our policy. We have put a plan in place to align these practices with our policy.

Living wages

Recognition and rewards have been identified as an important engagement driver for our employees and direct suppliers. By ensuring good working conditions, Signify not only aims to provide a fair, safe, and respectful work environment, but also an inspiring place to work and grow. Fair remuneration is considered a precondition for our employees to flourish. Signify provides total minimum requirements and is in line with the industry practices in the markets in which we operate. In addition, we are committed to providing our employees with a living wage, ensuring that their everyday needs are met. The guiding principles of our pay policy include providing competitive remuneration relative to all labor markets, ensuring equity, and providing a living wage to our employees.

As such, to ensure compliance against our guiding principles, Signify launched its Living Wages program in 2017. Every two years, Signify performs an analysis of salaries and benefits for employees globally with respect to a living wage, covering the necessary living costs. We compare our wages to the WageIndicator Foundation database.

In 2021, Signify enhanced its analysis by looking at 43 different regions around the world rather than on an overall country basis for a select number of countries, as was done in previous years. The results show that company standards exceed the living wage standards in all regions examined except two. We will create a plan to address this delta for each of the two regions in 2022.

Fair compensation in terms of wages, overtime and benefits for our suppliers' employees in risk countries is part of our sustainable supply chain program. Through our active engagement, 98% of our risk suppliers met our requirements. In 2020, we started to collect relevant data among our suppliers, and we continued to do this in 2021.

Social responsibility in our supply chain

We have a direct business relationship with more than 3,000 product and component suppliers. Responsible procurement practices and management of our supply chain require a structured and innovative approach due to the wide variety of stakeholders.

Signify has developed programs over the years to prevent human rights violations in its supply chain. These programs cover the assessment and development of supplier sustainability performance (audits and training) and responsible minerals sourcing. As part of our Brighter Lives, Better World 2025 sustainability program, we are strengthening our commitment towards a more sustainable supply chain by increasing our supplier sustainability performance rate annual target to 95% until the end of 2025.

Through our efforts, we foster decent work and economic growth by improving the safety & well-being of suppliers and directly contribute to SDG 8: Decent work and economic growth,

Supplier sustainability performance

The core of our supplier sustainability performance program is the Supplier Sustainability Declaration (SSD). This declaration forms an integral part of our supplier contracts and can be found on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/supplier-sustainability-management.

The SSD is derived from the Responsible Business Alliance (RBA) Code of Conduct and sets out the standards and behaviors we require from our suppliers and their suppliers. It covers labor, health & 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.

Our audit program consists of full audits performed in a three-year cycle by an independent audit firm for selected suppliers in risk countries. In 2021, we continued the integration of our new acquisitions' suppliers in the program and we aim to finalize it in 2022.

If non-conformances are identified, we require the supplier to develop and execute a corrective action plan. We support our suppliers to correct the non-conformances, for instance by providing training or sharing best practices. We monitor the execution of the corrective action plans until the supplier is compliant with our requirements. In case of delays, the supplier is classified as non-compliant in our Tritium program and we apply a stratified approach for consequence management. Tritium is a program that helps us develop a strong supply chain with best-in-class suppliers and is based on selection and rewards criteria against our strategic priorities. We work with each supplier to resolve non-conformances within ninety days, where possible.

The table below shows the summary of our 2021 audit program.

Summary of 2021 audit program (three-year cycle, third-party audit)

	Greater China	Rest of the World	Americas	Europe	Total
Total no. of risk suppliers	**192**	**42**	**31**	**0**	**265**
Total no. of audits	69	9	14	0	92
Initial audits	26	5	8	0	39
Continued conformance audits	43	4	6	0	53
Workers employed at sites audited	28,756	6,317	4,256	0	39,329

In 2021 we added 25 new suppliers to our program.

Total new suppliers in 2021 audit program

	Greater China	Rest of the world	Americas	Europe	Total
New suppliers (onboarding)	17	3	4	1	25

The supplier sustainability performance rate represents the percentage of risk suppliers that have an audit score of at least 90 out of 100 points. Despite COVID-19, we were able to fully execute our program at suppliers' facilities with limited need for remote auditing. In 2021, while we continued integrating our new acquisitions' suppliers, we surpassed our target of 95% by achieving a supplier sustainability performance rate of 98% (2020: 99%).

The table below shows the supplier sustainability performance and indicates the conformance level in the audits before suppliers have taken corrective actions.

The category 'Occupational safety' decreased its compliance rate from 60-80% in 2020 to 40-60% in 2021.

The category 'Energy consumption and Greenhouse gas emission' increased to 60-80% in 2021 from 40-60% in 2020.

Summary of 2021 audit findings before suppliers have taken corrective actions, supplier compliance rate per category of SSD including top-10 non-conformances coverage of the Supplier Sustainability Declaration.

Labor	Health & Safety	Environment	Ethics	General
Freely chosen employment 60-80%	**Occupational safety 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 40-60%**	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 40-60%	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%	

Supplier training and developments

Since 2017, we have put in place on-site trainings for our suppliers. These trainings are tailored towards the non-conformances that were found during the audit. By doing so, we train supplier staff on the topics that are most important for them to improve on. In 2021, we performed on-site trainings at 67 supplier sites, with a total of 351 attendees.

We also organize training sessions on the RBA Code of Conduct and SSD. To address critical and emerging issues, we provide in-depth capability building programs for our suppliers on specific topics. In 2021, we focused these extra trainings on carbon emissions and reduction activities, related to the CDP Supply Chain program, and initiated a new Science-Based Targets (SBTs) program to help our suppliers implement SBTs and drive greenhouse gas (GHG) emission reductions in our supply chain.

In 2021, we organized five training sessions which were attended by 198 suppliers, with a total of 381 attendees.

Reducing water and air pollution levels in China

To contribute to the reduction of the environmental pollution in China, Signify worked with the Chinese Institute of Public & Environmental Affairs (IPE), leveraging their work to engage with our suppliers. For instance, to help suppliers better understand environmental issues, we organized three IPE training sessions in 2021 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 2021, there were 57 direct suppliers flagged on the IPE's list. In 2021, this number was reduced to 10 (2020: 9), and 47 suppliers have taken action to remediate and their violation records were removed from the IPE website. Signify also requested direct suppliers to engage their own direct suppliers that appear on the IPE's list to resolve non-conformances.

Responsible mineral sourcing

Our commitment to sustainable development extends to issues further down the supply chain, to prevent human rights abuses and financing of conflicts in the extractive sector. Global supply chains in the lighting industry are long and complex, typically with more than seven tiers between the finished product and the source of raw materials used for manufacturing. However, we believe that through strong multi-stakeholder partnerships we can make a difference.

As part of the Signify Conflict Minerals program, we implement measures in our supply chain to ensure that our products are not directly or indirectly funding atrocities in the Democratic Republic of Congo (DRC). We support and follow the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The full description of our due diligence process and Signify's position on Conflict Minerals are available on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/conflict-minerals.

Since 2016, we are a member of the European Partnership for Responsible Minerals (EPRM), a public-private partnership initiative. The EPRM provides a platform for cooperation between European governments, companies and civil society to address the issues occurring in the mining of minerals and to enable responsible sourcing from high risk and conflict regions.

We are also an active member of the Responsible Mineral Initiative (RMI) which runs the audit program to verify the smelters' conflict-free status and to identify sources of 3TG and cobalt in our supply chain. We use the tools and programs developed by the RMI, especially the Conflict Minerals Reporting Template (CMRT), the Cobalt Reporting Template (CRT) and the Responsible Minerals Assurance Process (RMAP). Each year, we invite our main suppliers, based on purchasing spend and metal usage, to fill in the latest version of the CMRT and/or CRT. We carefully review the information received via the CMRT and CRT from each supplier against our requirements and we check our upstream smelters against the RMI smelters list. The smelters identified through this process are included in the Signify smelter list published in our Signify Conflict Minerals Declaration (see link above).

In 2021, we identified 324 3TG smelters, of which 83% are conformant or in the compliance process with RMI audits, 15% are not yet included in the process and 2% are non-conformant (8 cases). We also identified 7 smelters for cobalt, of which one is non-conformant. Follow-up actions are planned with the involved suppliers for 2022. At the end 2021, the suppliers of Cooper Lighting and Kite were not yet fully integrated in this program.

More can be found on our website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/responsible-minerals.

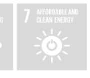
The results of the Reasonable Country of Origin Inquiry (RCOI) for conflict minerals can be found in the table below. The information for the RCOI is provided by RMI.

Results of the RCOI (Reasonable Country of Origin Inquiry)

	Gold	Tantalum	Tin	Tungsten	Total
Smelters known to source from the covered countries (CC)	2	10	3	6	21
Smelters known to source from conflict affected or high-risk areas (CAHRA)	3	13	3	6	25
Smelters known to process only recycled or scrap materials	32	22	23	18	95
Smelters known to source from outside the CC/ CAHRA's	105	26	52	36	219

Cobalt is present in our battery supply chain only for emergency lighting and remote controls. To enhance transparency in the cobalt supply chain, in 2018 we co-founded the Fair Cobalt Alliance (FCA) with Fairphone, Huayou and Impact Facility. This multi-stakeholder action platform offers actors across the cobalt supply chain a pre-competitive environment for collaboration to help strengthen and professionalize DRC's artisanal cobalt mining sector and contribute to local economic development at large. The 2021 focus was on preparing for a solar project that will deliver clean-technology-based lighting systems to schools, communal spaces and institutions, empowering communities to be safer, more active, and economically productive after sunset. For more on the FCA program: https://www.faircobaltalliance.org/

16.3.4 Safety at work



Health & Safety performance

The health and safety of our employees is a top priority. We commit to provide a safe working environment for our employees and we contribute to the achievement of SDG 8: Decent work and economic growth,

The total recordable cases (TRC) rate is the central lagging indicator through which we measure our overall safety performance. Targets for this indicator are set and managed at a company-wide level, and for the individual divisions and manufacturing sites and distribution centers.

As part of our Brighter Lives, Better World 2025 program, we will continue to strengthen our programs to maintain a safe and healthy workplace. We strengthened our commitment with a TRC target of 0.30 by the end of 2025, with the ambition for all individual sites to reach it.

In 2021, we strengthened employee behaviors in non-routine situations. With the STAR (Stop-Think-Act-Reflect) campaign and risk awareness trainings, we have enforced engagement and accountability of employees to stop (Andon) and speak-up when facing non-standard or hazardous situations at work. STAR was the theme of our Safety Week 2021.

In 2021, we continued to improve equipment safety, warehousing safety, behavioral safety and drive progress for leading indicators related to first aid cases, near-misses, unsafe conditions and at-risk behaviors. Our injury prevention framework, launched in 2015, continued its integration into the operational Lean framework and Signify management system. All our industrial sites have now adopted the key elements of this framework and dedicated integration programs are executed for our recently acquired sites of Cooper Lighting and Klite. In 2021, we continued our efforts to further reduce injury and illness rates by improving daily standards to prevent injuries. We increased our injury prevention requirements in the upgrades of Signify's Lean program.

At the end of 2021, we recorded 58 TRC cases in 2021 (2020: 52) and we had no fatality incident. The TRC rate decreased to 0.17 per 100 FTEs, compared to 0.22 in 2020. This is a 23% improvement compared to 2020.

In 2021, 57% of our industrial units had no recordable injuries. There are 10 industrial sites that have had no recordable injuries over the last 3 years, while 11 sites had achieved more than 500 days injury-free (excluding acquisitions integrated in 2021).

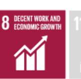
Recordable cases

	2019	2020	2021
Total recordable case rate	0.32	0.22	0.17
Lost workday cases rate	0.19	0.17	0.12
Fatalities	1	0	0

Management system

In 2021, we added two new sites to the scope of our multi-site management compliance system with ISO 45001. Part of our manufacturing sites continued to be certified locally and at the end of 2021, 60% of our reporting manufacturing sites were ISO 45001 certified. The remaining manufacturing sites have procedures in place which assure compliance with local regulations and Signify policies.

16.3.5 Business ethics



Signify's Integrity code

Our Integrity code serves as our code of conduct. This code embodies our commitment to always act with integrity, both in our internal and external interactions. The code sets the standard for business conduct of our employees and for the company itself and also gives more information on how to speak up or raise concerns. Translations of our Integrity code are available in 26 languages. For a description of Integrity code processes and policies, please refer to chapter 12, Risk factors and risk management, section 12.1, of this Annual Report.

In 2021, we focused on increasing awareness of our Integrity reporting channels. We launched a company-wide campaign via various videos and through the company's portal and one of the company's global webcasts. In addition, we used infographics detailing the steps of our investigation process and actively engaged in conversations through posts and polls on our social networking tool. We continued our company-wide Speak up campaign to raise awareness on the importance to speak up when employees encounter integrity concerns. Employees were requested to complete a mandatory e-learning, and by the end of 2021 the completion rate was 92% of the targeted employees.

In 2021, 195 Integrity code concerns were captured via the Signify Ethics line and through our network of compliance officers, a 10% increase compared to 2020. The number of concerns raised were in line with expectations building on the trends we identified the previous year. Details per category are shown in the table on the next page. In 2021, we also saw an increase in the number of people using the 'Ask a question' functionality in our reporting tool. This functionality was introduced some years ago with the intention to lower the bar for people to approach the Compliance department. We will continue to promote this functionality in the coming period.

Most commonly reported concerns

Treatment of employees

The category Treatment of employees represents 46% of the total cases reported (48% in 2020). Within this category, the largest subcategory is Equal, fair & respectful treatment. This made up to 66% of the concerns related to Treatment of employees in 2021 (70% in 2020). This category, for example, relates to concerns about verbal abuse, (sexual) harassment, favoritism and matters of discrimination in the workplace. This is a further decrease compared to the percentages in previous years, and may be partly due to a continuation of a high number of employees working from home or remotely in 2021.

Business integrity

The second most reported type of concern relates to Business integrity. The number of complaints reported in this segment represents 29% of the total cases reported (33% in 2020).

In 2021, we saw a further increase in reported cases relating to Security, including IT. This category represents 15% of the total cases reported in 2021 (13% in 2020) and relates, for instance, to concerns about unauthorized use of the company's assets, theft, cyber security or other IT-related concerns. This increase builds on the trend of previous years and Signify continues to actively increase awareness of security and (cyber)crime among its employees.

Substantiated concerns

At the start 2021, 46 cases were open. During 2021 a total number of 195 cases were reported. As per December 2021, 29 cases were open. That means that during 2021, we closed 212 cases. Of these 212 cases, 81 were found to be substantiated, which represents 38% of the closed cases.

Substantiated cases are followed up with corrective actions, where possible. Such corrective actions can include additional measures, such as training, strengthening of internal controls, creation of additional policies or other measures that aim to promote or enhance a culture of business compliance. Corrective actions can also take the form of disciplinary action. In 2021, Signify applied disciplinary actions ranging from training, coaching to verbal and written warnings and to termination of employment, depending on the severity of the matter.

Breakdown of alleged violations Integrity code

	2019	2020	2021
Health & Safety	–	2	3
Treatment of employees	114	86	90
• Equal, fair and respectful treatment	89	60	59
• Employee development	1	4	3
• Employee privacy	–	–	–
• Employee relations	1	2	5
• Remuneration	2	5	11
• Right to organize/Collective bargaining	1	–	–
• Working hours	1	2	2
• HR other	19	13	10
Legal	4	7	11
Business integrity	66	59	56
Security, including IT	9	24	30
Other	4	–	5
Total	197	178	195

Responsible tax policy

Our tax principles are based on the recognition that tax is an integral element of our overall corporate social responsibility as well as commitment to the United Nations Sustainable Developments Goals. The UN and other global organizations have emphasized the importance of fair contributions and are asking for more transparency on tax.

Responsible Tax is an important topic for Signify to report on. For us, acting with integrity means paying the right amount of tax, in the right place, at the right time. Being a responsible taxpayer is aligned with our purpose, business strategy and Integrity Code. Our Tax Principles set the standard for our conduct, by which individual employees, the company and its subsidiaries must abide. The tax principles ensure compliance with local and international tax laws and internationally accepted standards of good corporate governance such as various OECD Guidelines. We are committed to providing timely, regular, and reliable information on Signify's tax position, including the Group effective tax rate, our corporate income tax contributions, and our main tax exposures (see chapter 14, Consolidated financial statements, note 9, of this Annual Report).

Signify has a Tax Control Framework in place, which provides awareness and assurance of adherence to up-to-date tax policies. Risks are managed and monitored through a tool for collecting details on a quarterly basis of all our corporate income tax exposures and provisions. In 2021, Signify implemented a web-based tool for supporting and central monitoring of the filing of all corporate income tax returns worldwide. We monitor and seek to minimize the number of open tax years. Our Board of Management approves our tax strategy and reviews the tax control framework and our key tax positions. External auditors regularly review our tax controls and our key tax positions as part of the audit of our financial results. The responsibility for tax management ultimately rests at the executive Board of Management with the CFO.

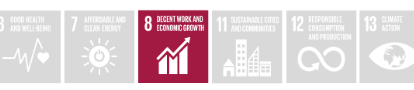
Signify complies with internationally-accepted tax standards (such as OECD guidelines) as well as more local initiatives. In accordance with these international standards, Signify prepares its Country-by-Country report for its entire Group and provides it to the Dutch Tax Authorities. In 2021, we also implemented unified internal standards of reporting under Mandatory Disclosure Rules (DAC6 Directive). Signify's transfer pricing model is driven by the activities undertaken and the value created in each part of our business, and is in accordance with the OECD transfer pricing guideline. As a local initiative, we seek to build open and constructive relationships with tax authorities and participate in cooperative compliance programs or related schemes, for example in the Netherlands.

More information can be found in our Global Tax Principles: https://www.assets.signify.com/is/content/PhilipsLighting/Assets/signify/global/ir/signify-tax-principles.pdf.

Product quality

Signify is strongly committed to responsible product stewardship. The Signify quality management system is ISO 9001:2015 certified, covering all business activities. When it comes to quality, we believe prevention of defects is better than cure. This is reflected in our structured approach towards the selection and qualification of suppliers, manufacturing, installation and delivery of our products and services. In line with mandatory legislation all over the world, Signify is committed to placing only safe products on the market. In the event products have been brought to market that do not meet the essential safety requirements, Signify takes a systematic approach and appropriate actions, which may include a product recall, especially in case the health and safety of individuals are of concern. Signify has a robust process in place to ensure impacted constituents are informed. In 2021, no product safety issues were found that resulted in a material fine or penalty.

16.3.6 Cybersecurity



Digitalization is one of our strategic frontiers and our connected lighting offer is expanding. We are focusing on improving our digital front and back-ends and increasing our data analytics capabilities to better serve our customers. In this context, it has been more important than ever to ensure that access to network, IT systems and data is assured at all times. Signify has a dedicated Corporate Security department which focuses on Information, Product and Operational security, and follows the three lines of defense model. We have a cybersecurity team that provides Threat Intelligence, Guidance and Assurance services. Our threat intelligence team has a defined process for gathering, analyzing, and distributing actionable intelligence on potential threats to Signify, and proactively alerts stakeholders. Our Guidance team is responsible to provide security guidance through the development of Policies, Standards and Process Guidelines, and establish an Enterprise Security Architecture to keep the digital identities, data and environment secure. Our Assurance team performs assessments to validate implementation of standards to assess residual risks and gaps. Our security operation reporting center is responsible for detection, mitigation and resolution of cybersecurity-related incidents, enabling action to be taken in a timely manner. Technical security measures are implemented to support the “defense in depth” principle, starting from the collection of information to infrastructure controls.

In 2021, we have created a process to extend the reach of our cybersecurity services directly to business and IT stakeholders. Additionally, our employees were asked to complete a mandatory training on security. Our cybersecurity requirements also apply to our partners and suppliers as part of security schedules and contracts signed as they need to comply with the same standards we set for ourselves. Our cybersecurity processes and measures are based on ISO 27001 (Information security) and ISO 62443 (Product Security) certifications, as well as other related best practices (such as the National Institute of Standards and Technology (NIST), and the Center of Internet Security (CIS)).

The threats of phishing and ransomware as well as the insider threat continue to be a

challenge. We are constantly trying to evolve and improve our cybersecurity guidance, alerting, monitoring and incident response mechanisms to manage these threats without causing disruptions to Signify businesses. All cybersecurity activities are reported to and monitored by the Security Board, chaired by our Chief Executive Officer, Eric Rondolat. Other members of the Security Board are the Chief Financial Officer, the Chief Security Officer, and the Heads of Internal Audit, Legal and Human Resources. The Board of Management and the Supervisory Board are informed regularly.

16.3.7 Social impact of light

Brighter lives revenues

We are driving change to create brighter futures. With our lighting innovations, we support the health and well-being of people, sustainable food production for a growing global population, and a safer and more secure society. We commit to double our Brighter lives revenues to 32% by the end of 2025, which means our revenues coming from lighting innovations that increase food availability, safety and security, or health and well-being. At the end of 2021, our Brighter lives revenues were between 25% and 27%.

Through our actions, we directly contribute to the achievement of SDG 3: Good health and well-being.

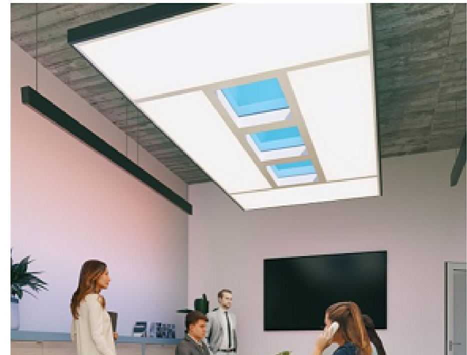
Health & well-being

Light is essential for life, equally important as food, water and air. Light allows us to see and to experience the world around us. It affects us visually, biologically and emotionally, supporting comfort, well-being and performance. Scientific evidence shows that light has a powerful impact on our emotions and important physiological and biological processes in our body. Circadian lighting in an office environment for instance makes an office more liveable and up to 12% more productive.

In 2021, we continued to focus on quality of light in our LED portfolio meeting the EyeComfort criteria which measures factors that can impact the comfort of your eyes (such as flicker or glare). We upgraded the majority of our LED lamps and Hue and WiZ portfolio. We continued to expand our NatureConnect, lighting inspired by Nature. We also focused on Office and Healthcare applications, contributing to employees', patients' and staff's health and well-being. NatureConnect brings the benefits of natural light indoors. Based on combined results of end-user surveys at different customer sites, 80% of the office workers confirmed that the lighting feels like daylight. "I really feel like I'm outside" is the most common reaction from customers.

The continuing coronavirus pandemic shows that health and well-being are top priorities, and lighting can offer reliable disinfection through several UV-C applications. In 2021, our portfolio of new innovative solutions based on our UV-C offering was further extended to help fight the virus.

The risk of contracting and spreading viruses and bacteria increases in busy and public areas, such as offices, stores, schools, museums and public transport. In laboratory testing, our UV-C light sources inactivated 99% of the SARS-CoV-2 on a surface with an exposure time of 6 seconds.



Food availability

To meet the needs of a growing population, we need to consume resources more efficiently. The global food demand will rise by 70% by 2050, while 80% of arable land globally is already currently farmed. Many of the vegetables we consume are not produced locally and are transported over long distances. Approximately one-third of the world's available food is either spoiled or thrown away before it ever reaches a plate. Overall, the world's current food production and distribution systems contribute to 30% of all greenhouse gas emissions. To answer these challenges, significant changes to our food systems are needed to ensure enough safe, healthy, accessible and affordable food for all in the (near) future.

Horticulture LED technologies can provide an answer by realizing extremely efficient farming with high yields, efficient use of space and enabling local production, at least a 90% reduction in water use, and avoiding pollution by pesticides. With the right light spectrum and growth recipe, our lighting innovations give better control over climate and crops, and help to achieve high quality and yield at the right time. Our technology applies also to aquaculture, animal centric lighting and water and air purification.

Safety & Security

For the past 10 years, lighting has gone through a significant technological transformation, opening new possibilities in using light. With increasing urbanization, street crime and traffic accidents are a real challenge. Interact-connected LED systems and management software improve city services and can help to reduce street crime and night-time traffic accidents, while reducing energy costs. Our connected LED systems also have applications for outdoor homes, enhancing feeling of safety and security.

Today, more than 50 billion devices are connected to the Internet, most of them wirelessly. This is placing wireless communication under increasing pressure, and the radio spectrum is becoming congested. In addition, there are areas where radio frequency wireless communication is not permitted or the best fit. Trulifi by Signify offers a range of LiFi systems, providing a two-way wireless communication that is reliable, secure, and fast. Next to this, Trulifi is immune to any electromagnetic interference from, for example, industrial processes.

Access to light

Global economic recovery continues to gather pace, yet many countries and communities are still facing tremendous challenges. In 2021, the Signify Foundation's social impact focus has been on building recovery and resilience for underserved communities by enabling access to light and livelihood development. Lighting interventions designed in collaboration with local groups and aid agencies have made a positive impact on communities, providing better access to health care, essential services, sports, and productivity.

In its fourth year of operations, the Signify Foundation remains committed to enabling access to the benefits of sustainable lighting for underserved communities. To fulfill this mission, the Foundation partners with actors across the entire value chain that play a key role in the delivery of clean technology-based lighting systems to homes, communal spaces and institutions, empowering communities to be safer, active, and economically productive after sunset. Its work contributes to the UN's Sustainable Development Goals (SDGs), in particular to SDG 5: Gender equality, SDG 7: Affordable and clean energy, SDG 8: Decent work and economic growth, and SDG 11: Sustainable cities and communities.

Projects supported by the combined resources of Signify and Signify Foundation have lit 7.2 million lives in communities around the globe and supported 11,784 lighting entrepreneurs (baseline 2017).

The **Lighting lives** program aims to create long-lasting impact through investing in communities and developing market ecosystems, where lighting can be bought and traded. This aim drives the Foundation towards innovative finance models, such as recoverable grants to help social enterprises overcome their barriers to grow and scale.

Signify entities around the globe actively work alongside the Foundation and its partners to light up underprivileged public service institutions like hospitals, schools and sport facilities. In 2021, the Foundation partnered with the Signify South Africa office and Earthrise Trust for a Lighting Lives project to improve the lives of Franshoek and Naledi village communities. Solar lights installed in and around the community centers, farms, and soccer fields allow residents to safely socialize, mobilize, and take part in sports at night, as well as increasing their farming productivity.

Through its **Lighting entrepreneurs** programs, the Signify Foundation supports local capacity building, with the focus on business and technical skills, to develop sustainable communities and livelihoods. Its support focuses on empowering people who currently lack access to formal employment, particularly youth and women, and who are motivated to start their own clean energy businesses.

Within this scope, a women-led last-mile distribution program, 'Bright Dada', kicked off in 2021. Through the program, women entrepreneurs receive business skills training and will start to distribute energy-efficient lighting to remote households in Uganda and Kenya. The program is designed to tackle the gaps in income generation opportunities and access to good quality lighting in rural parts of East Africa.

Increasing safety and security for vulnerable communities facing natural and man-made disasters remains a priority for the Signify Foundation. This is addressed through the **Humanitarian Lighting** program. Lighting is a central element in improving security, reducing the incidence of gender-based violence outside the home, improving sanitation and hygiene, and contributing to people's overall sense of dignity.

During 2020 and 2021, the Foundation donated 11,000 portable solar lamps for distribution to vulnerable groups in locations throughout Syria, including internally displaced people, people living with a disability, and the elderly. This intervention has a particular focus on women and adolescent girls and aims to integrate lighting into the United Nations Population Fund (UNFPA)'s humanitarian response.

Through the Foundation and Signify's continued focus on these areas, we are on track in our efforts to reach our target of lighting 10 million lives by the end of 2025.

To learn more about the Foundation, please see the Signify Foundation's Annual Report.

16.4 Better World

In 2021, we celebrated one year of being carbon neutral in our operations and using 100% renewable electricity. With the United Nations Sustainable Development Goals (UN SDGs) as our strategic compass, we set even more ambitious goals through our Brighter Lives, Better World 2025 sustainability program, to provide solutions that address some of the most important challenges of our time – for a better world.

In line with our commitment to Climate action (SDG13) and Affordable and clean energy (SDG7), we are going beyond carbon neutrality and aim at doubling the pace of the Paris Agreement's 1.5°C scenario to reduce greenhouse gas (GHG) emissions over our full value chain by the end of 2025. We will do so by increasing the energy efficiency of our portfolio, to reduce emissions of our customers and by driving carbon reduction at our suppliers. Also, we aim at doubling our revenues from circular products, systems and services by the end of 2025, contributing directly to responsible consumption and production (SDG 12).

All our environmental policies and our management framework are based on the international ISO 14001 standard. In 2021, 83% of our manufacturing sites were certified to ISO 14001.

16.4.1 Climate action

Climate leadership

At Signify, we acknowledge the findings of the Intergovernmental Panel on Climate Change (IPCC) and believe we have an important role to play in the transformation towards a low-carbon economy, with deep decarbonization across our value chain. Signify is one of the first 28 companies committing to verified Science-Based Targets in line with the Paris Agreement's 1.5°C pathway, to cut GHG emissions in our operations as well as in our value chain. We commit to reduce 70% of absolute scope 1 and 2 GHG emissions and 30% of absolute scope 3 GHG emissions by 2030 (baseline 2015).

In 2021, Signify was again recognized in CDP's Climate A list for our leadership in environmental performance. We continued to partner with the Climate Group's EV100 Initiative to operate a lease fleet of hybrid and fully electric vehicles (EVs) by 2030. We remain engaged in the AndersReizen Dutch Business Sustainable Mobility Pledge to further improve the sustainability performance of our business travel.

Through our partnership with the RE100 Initiative, we shifted to 100% renewable electricity use in 2020. As an active member of Clean Cargo and the WBCSD Transforming Heavy Transport project, we engage in cross-industry collaboration and strive to lower the carbon footprint of our freight transport. We renewed our partnership with Maersk, one of our key partners in ocean freight, and supported them in launching new vessels that operate on zero-carbon fuels. This will help us to scale zero carbon solutions in our supply chain and logistics operations. Our continuous pledge to the World Green Building Council's Net Zero Carbon Buildings commitment facilitates improvement in energy efficiency as well as reduction in electricity consumption in our non-industrial buildings.

In 2021, we continued our efforts to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and we established an internal cross-department task force to further assess our climate-related risks and opportunities and strengthen our climate risk mitigation and adaptation strategy.

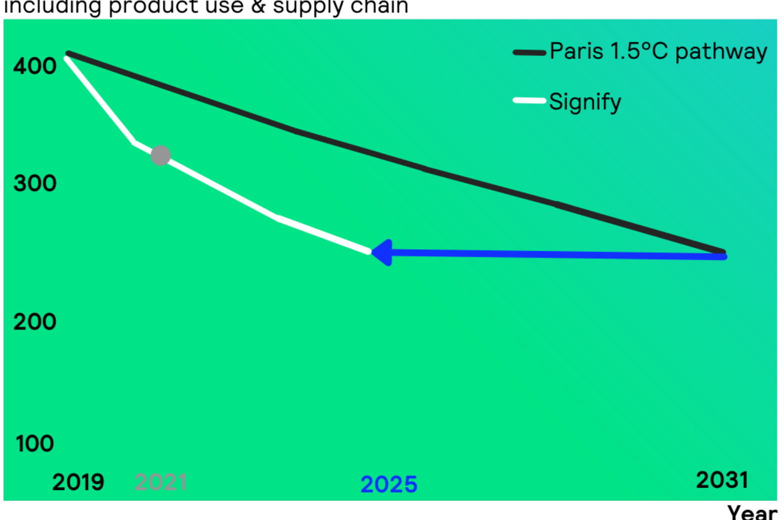
Double the pace of the Paris Agreement

In our Brighter Lives, Better World 2025 sustainability program, we go beyond carbon neutrality and commit to doubling the pace of the Paris Agreement's 1.5°C scenario to decarbonize our entire value chain. This means we aim to achieve the emission reduction goals laid out in the Paris Agreement's 1.5°C pathway for 2031 by 2025, six years early.

By the end of 2025, we will reduce our scope 1, 2, and 3 emissions by 35% compared to our 2019 baseline year.

Doubling the pace of the Paris Agreement

CO_2 (million tonnes)
including product use & supply chain

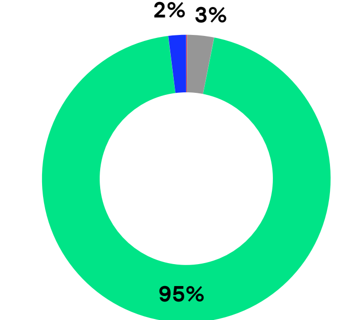


In 2021, we are on track to deliver against our ambitious goal of doubling the pace of the Paris Agreement's 1.5° scenario.

Reporting emissions across the value chain is still a niche practice where Signify is taking the lead. We are working on improving the accuracy of the data used, and have the ambition to include additional Scope 3 data in next year's report.

As shown in the graph on the right, the large majority of our value-chain emissions lies in the product use phase.

Signify footprint over its value chain



- Operations (Scope 1, 2, Logistics, Business travel)
- Scope 3 suppliers
- Scope 3 use of sold products
- Scope 3 end-of-life

Carbon neutral in our operations

Since September 2020, we run carbon neutral operations around the globe, which means GHG emissions from our manufacturing facilities (scope 1 and 2), non-industrial locations (scope 1 and 2), upstream and downstream logistics activities (scope 3), and business travel (scope 3) are all carbon neutral. We continue sourcing 100% renewable electricity in our global operations, contributing to the green energy transition.

Over the last decade, Signify reduced its operational footprint by more than 70% and has been driving hundreds of initiatives to reduce emissions in factories, offices, logistics and business travel.

In 2021, total gross CO_2 emissions were 290 kilotonnes, a 12% increase year-on-year. This increase can be explained by the integration of Cooper Lighting and Klite into our sustainability commitments. Our operational emission intensity in tonnes of CO_2e per million-euro sales was 42 in 2021 (2020: 40).

As a manufacturing company, we still have residual emissions, such as emissions from the use of natural gas in glass ovens. To fulfil our carbon neutral commitment, we invest in certified carbon offsetting projects.

Operational carbon footprint in kilotonnes

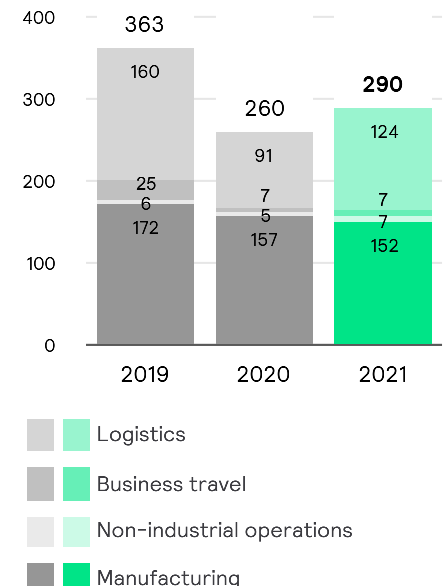
	2019	2020	2021
Gross	363	260	290
Offset	299	260	290
Net	64	0	0

In 2021, we continued to partner with South Pole for carbon offsetting projects that are aligned with our purpose. Among others, we initiated off-grid renewable energy generation with solar panels in India. We continued supporting reforestation and forest conservation in Uruguay and Zimbabwe and continued to engage in increasing the availability of renewable electricity through wind farms in India. Our partnership with South Pole enabled us to offset 100% of our residue emissions, resulting in carbon neutrality across our operations.

Signify operational carbon footprint in kilotonnes

	2019	2020	2021
Scope 1	168	161	149
Scope 2 (market based)	10	1	10
Scope 3 logistics	160	91	124
Of which			
• Air transport	73	40	59
• Road transport	40	24	31
• Ocean transport	47	27	34
Scope 3 business travel	25	7	7
Total footprint	**363**	**260**	**290**
Scope 2 (location based)	181	160	186

Operational carbon footprint in kilotonnes



Manufacturing

In 2021, manufacturing accounted for 53% of our operational carbon footprint and amounted to 152 kilotonnes. This is a slight decrease of 3% compared to 2020 despite our acquisitions' integration. In 2021, we continued to lead operational changes and efficiency improvements, for instance through the optimization of heating systems.

Non-industrial operations

In 2021, CO_2 emissions from non-industrial operations (offices, warehouses) represented 2% of our total operational carbon footprint. In 2021, our emissions from non-industrial operations increased by 2 kilotonnes compared to 2020.

Logistics

In 2021, 43% of our total CO_2 emissions in our operations were attributed to logistics, and our total emissions from logistics increased by 36% compared to 2020. This is a result of the gradual business recovery from the COVID-19 impact and the integration of Cooper Lighting Solutions and Klite into our sustainability commitments.

Business travel

In 2021, our CO_2 emissions related to business travel accounted for 2% of our operational carbon footprint. While the total emissions from logistics kept the same level compared to 2020, we lowered emissions from air travel by 33%.

Energy use in operations

Our total energy usage in 2021 amounted to 3,630 terajoules. Our operational energy intensity in terajoules per million-euro sales was 0.53 in 2021. This is 26% more efficient than 2020 (0.72) and is due to operational optimization, reduced heating requirements and energy efficiency improvements in our factories.

Electricity

In 2021, we procured 100% of our electricity from renewable sources. This achievement directly contributes to SDG 7: Clean and affordable energy. All electricity consumed by our operations worldwide was sourced from renewable sources or matched with Energy Attribute Certificates (EACs). Approximately 11% of our renewable electricity was contracted via our energy providers, 51% was sourced through the procurement of renewable energy certificates, and 38% came from our participation in two Power Purchase Agreements (PPA) in the US and Poland. Our PPAs contribute to the transition to more sustainable electricity grids and reinforce our long-term commitment to using renewable electricity. In 2020 we signed the first pan-European PPA, which will power our European operations with green electricity from 2023 onward.

Enabling carbon reduction for our customers

Phasing out energy-inefficient conventional lighting and switching to energy-efficient LEDs, introducing solar lighting, and further enhancing energy saving with smart connected lighting has significant environmental benefits. As mentioned previously, the majority of our value-chain emissions lies in the product use phase. Helping our customers to reduce emissions through energy efficiency is a vital aspect of our innovation process.

At the end of 2020, 84.1% of our revenues came from sustainable products, systems and services, overachieving our 2020 target of 80%. In 2021, with our new Brighter Lives, Better World 2025 sustainability program, we reviewed our definition and we committed to grow our Climate action revenues to 72% by the end of 2025.

The energy efficiency criteria to qualify for Climate action revenues became significantly more stringent. Depending on the lumen output, products must have a luminous efficacy of 85 lm/W to 110 lm/W, which is 20% to 65% higher compared with the previous threshold for Sustainable revenues. Climate action revenues are measured as a percentage of the total revenues per product family and tracked for each Division.

At the end of 2021, between 61% and 64% of our revenues contributed to climate action.

By delivering cleaner and more energy-efficient solutions, we are proud to contribute to the achievement of SDG 7: Affordable and clean energy.

Philips LED's A-class bulbs

In 2021, Signify launched its most energy-efficient lamp, while maintaining the same high quality of LED lighting for its consumer. The A-class bulb enables 60% energy reduction compared to standard Philips LED bulbs and has a longer lifespan (50,000 hrs). It provides customers with a smart investment for the planet, saving money and reducing waste. Thanks to this technological breakthrough, the new products are the first in a range of new Philips LED A-class bulbs meeting the highest level in the new EU energy labeling legislation.

Enabling carbon reduction at our suppliers

In 2021, we continued to engage our suppliers to reduce their carbon footprint. Our approach is to proactively initiate, develop and support carbon emission-reduction activities at suppliers through our partnership with the CDP Supply Chain program. In 2021, we invited 698 (2020: 711) of our strategic suppliers to the program, of which 71% submitted the 2021 CDP questionnaire.

This represents 89% of project-related spend (2020: 91% of the spend). In 2021, 269 strategic suppliers reported emission-reduction activities, overachieving our target of 200 strategic suppliers annually reporting emission reduction activities. 216 of our strategic suppliers disclosed their annual scope 1 (direct) and 2 (indirect) emissions.

In total, our suppliers undertook more than 260 initiatives in 2021 leading to almost 39 million metric tons of CO_2 emissions saved (2020: 32 million metric tons).

Setting Science-Based Targets in China

Signify was one of the first CDP Supply Chain members to start engaging Chinese suppliers on the importance to set Science-Based Targets (SBTs) to reduce carbon emissions. We nominated four of our high-impact China-based suppliers, of which two have now formally signed the Science-Based Targets Initiative (SBTi) commitment letter.
In a dedicated webinar to our suppliers, we explained how science-based target setting plays an important role in suppliers' evaluation. Once suppliers have formally committed to the SBTi, an emission calculation tool was provided to them to help the establishment of accurate emission rates.
Our collaboration with CDP was key to support our suppliers and monitor their progress and progress reports were shared at management level, to initiate actions where needed.

CDP reporters per region and topics reported

	Greater China		Rest of the World		Europe		Americas		Total	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Scope 1	78%	65%	72%	68%	72%	67%	72%	60%	74%	65%
Scope 2	49%	35%	47%	46%	45%	48%	50%	45%	48%	42%
Scope 1 & 2	51%	37%	48%	48%	47%	49%	51%	44%	50%	43%
Have a reduction target	54%	55%	38%	52%	41%	43%	35%	34%	44%	47%
Have on-going reduction activities	70%	63%	47%	61%	55%	51%	46%	39%	57%	54%
Climate change opportunities	54%	65%	55%	68%	60%	67%	54%	53%	56%	63%
Climate change risks	49%	57%	36%	45%	39%	46%	42%	42%	43%	49%
Integrated climate change in business strategy	69%	73%	66%	71%	75%	80%	62%	59%	69%	71%
Integrated climate change in risk management	17%	21%	28%	38%	31%	38%	34%	34%	26%	30%
Total amount of reporters	193	**190**	64	**56**	152	**136**	104	**116**	513	**498**

16.4.2 Circular economy

Our commitment

In 2021, humanity was using 1.7 times the resources our planet can sustain. At Signify, we identified five strategic areas where we will grow our business while furthering our contribution to a better and more sustainable world. These five growth areas are defined based on the major trends facing society, and on the United Nations Sustainable Development Goals. One of these growth areas is Circular economy. As the world continues to overuse its precious, limited resources, scarce materials will become more challenging to source. We need to do better, and we believe that the transition to a circular economy is instrumental.

With circular lighting solutions we can preserve value and avoid waste. That is why, as part of our Brighter Lives, Better World 2025 sustainability program, we have the ambition to double our revenues from circular products, systems, and services to 32% by the end of 2025. Additionally, we are committed to more sustainable packaging, removing plastics from all our consumer packaging in 2022, and to sending zero waste to landfill.

Our actions cover the entire life cycle of a product (from production, use and re-use to waste management) and directly contribute to the achievement of SDG 12: Responsible consumption and production.

Circular lighting portfolio

In our efforts to transition to a circular economy, we extended our circular lighting portfolio in 2021. Via well-established sustainable design rules, Signify continuously lowers the weight of new product designs, resulting in less material use and costs for our product portfolio. The sustainable design rules are also optimized for circularity, resulting in products that can be upgraded, serviced, reused, refurbished, or recycled. Our circular innovations cover four categories: Serviceable luminaires, Circular components, Intelligent systems, and Circular services.

Serviceable luminaires are fixtures that are upgradable, serviceable, connectable, energy-efficient, reusable, and recyclable. In 2021, we upgraded our LuxSpace Accent luminaires to PerfectAccent luminaires designed for a circular economy. These luminaires can easily be serviced, since all components can be replaced without tools, enabling maintenance or upgrading to meet the emerging needs of customers. Instead of replacing the whole luminaire, modules can be exchanged preserving value and avoiding waste. A perfect example of serviceable luminaires is that of our 3D printed luminaires, designed in a modular way and easily upgradable.

Circular components are exchangeable and have recyclable parts, such as drivers, controls, and LED boards.

Intelligent systems monitor serviceable luminaires and enable preventive maintenance. Signify connected systems tell us exactly when and where to perform maintenance cutting down on waste, costs, downtime, and manpower.

Circular services aim at prolonging lifetimes and provide customers with our innovative circular services, combining lighting design, installation and maintenance in a single contract.

We closely monitor and report the progress of the circular portfolio contribution and at

the end of 2021, between 21% and 25% of our revenues came from circular products, systems or services.

Our efforts also address supply chain improvements, such as remote serviceability (connected lighting) and end-of-life services. By minimizing material waste and reducing the environmental impact, we create an ecosystem that extends the life of our lighting products and provides a better future for the next generation.

Zero Waste to landfill

In 2020 we reached our zero waste to landfill commitment and the highest ever recycling rate. As part of our Brighter Lives, Better World 2025 sustainability program, we will continue our efforts and to keep sending zero manufacturing waste to landfill. In 2021, our major focus has been on including our recent acquisitions in our commitment and to drive continuous improvements and process optimization across the globe. At the end of the year, Signify was sending zero waste to landfill according to its commitment and only three sites from our new acquisitions were still transitioning to reach this status.

We improved our practices regarding waste segregation, waste awareness trainings and sharing best practices across other regions. In 2021, Signify registered 1.96 kilotonnes of hazardous waste (2020: 1.58 kilotonnes), of which 47.5% was recycled. The increase of hazardous waste year-on-year is due to the inclusion of our new acquisitions in our commitments. We will continue our efforts to reduce our hazardous waste by 5% annually.

Our recycling programs address waste arising from manufacturing activities, such as glass or canteen waste, as well as from suppliers, such as packaging materials. 89% of total waste was recycled in 2021 and we continued to recycle 100% of our metal and glass waste.

Total manufacturing waste consists of waste that is delivered for recycling, incineration or landfill. For more details on our commitment scope, please refer to our Sustainability Supplements to the Annual Report.

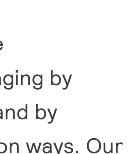
Manufacturing waste in kilotonnes

	2019	2020	2021
Recycled	32.7 (90%)	30 (91%)	38.7 (89%)
Incinerated	2.2 (6%)	1.9 (6%)	3.8 (9%)
Landfilled	1.5 (4%)	0.9 (3%)	0.9 (2%)
In scope of commitment	0.7 (2%)	0 (0%)	0.4 (0.88%)
Total waste	**36.4**	**32.8**	**43.8**

Recycling rate per waste category

	2019	2020	2021
Canteen waste	58%	43%	66%
Chemical Waste	29%	29%	36%
Electrical and Electronic Waste	90%	99%	100%
Glass (line rejects)	100%	100%	100%
Metal scrap	100%	100%	100%
Paper/cardboard	99%	99%	99%
Plastic waste	84%	79%	81%

16.4.3 Responsible packaging



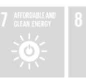
Signify pursues a reduction of the environmental impact of its packaging by shifting to responsible materials and by looking into smarter transportation ways. Our packaging policy encourages packaging designers, the purchasing community and suppliers to minimize the environmental impact of packaging 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 the use of 80% recycled paper, and up to 50% of recycled content when plastic is used.

In 2019, we started our plastic-free consumer packaging program, committing to phase out all plastic packaging material by the end of 2021. Since 2020, all new LED lamps packaging in Europe shifted from blister to paper boxes. In 2021, we continued our journey by replacing remaining plastic applications, such as plastic bags, protective films, plastic caps, cable binder, tape and stickers. By the end of the year, our consumer packaging was plastic-free in most of our markets.

In 2021, Signify removed 2,500 tonnes of plastic from its consumer product packaging. Based on our methodology for calculating societal impact, we decreased our societal cost by EUR 0.23 million through eliminating plastic from our packaging in 2021.

Our new packaging is now smaller, reducing carbon emissions from transport and the materials we use by 6,000 tonnes per year – equivalent to the amount of CO_2 that 270,000 fully grown trees can absorb in a year.

16.4.4 Hazardous substances



Product substances

Through sustainable design rules, all new product developments meet stringent sustainability criteria before their market launch. All our products and systems delivered to countries requiring the CE marking are compliant with the RoHS Directive (2011/65/ EU) and REACH (EC 1907/2006) Regulation. We require all our suppliers to communicate all substances in their components and to comply with the stipulations that we have listed in our Regulated Substance List (RSL), which in many cases goes beyond legislation. In 2021, we continued to engage with our suppliers, further rolling out the publicly available BOMcheck tool, in which components and substances can be registered.

Chemical substances in production processes

We prioritize the safe management of chemicals to ensure that we minimize the risks of the use of these substances related to the environment, society and our employees in their daily work. If there are threats of harm to human safety or the environment, we proactively search for effective alternatives. We have a robust approach to identify and manage regulated and hazardous substances in our production processes.

We ensure compliance through continuous monitoring of chemical usage in manufacturing sites and have been actively phasing out several hazardous substances.

Emissions from mercury

The target to achieve emissions As Low As Reasonably Achievable (ALARA) was met already in 2015 and we continue to closely monitor usage, emissions and exposure and drive further improvement where possible. For instance, since 2012 the emissions from mercury drastically decreased by changing our production processes and replacing liquid mercury with solid-state mercury. Additionally, with the transition from conventional lighting to LED lighting, (solid-state) mercury will further decrease in the coming years.

In 2021, emissions from mercury and mercury compounds totalled 0 kilogram.

Emissions from mercury in kilograms

	2019	2020	2021
Mercury and mercury compounds	1.2	0.01	0

Emissions from volatile organic compounds (VOCs) in lacquering processes

For years, Signify has been focusing on improving its operations relating to the coating of products to reduce the use of targeted VOCs. In 2021, we continued the shift from chemical painting to water-based paint and powder coating process. As a result, emissions of toluene decreased by 97%. Due to the progressive replacement of coil ballasts with electronic ballasts and the closure of production lines, styrene emissions have been eliminated since 2020.

Emissions of VOCs in lacquering processes in tonnes

	2019	2020	2021
Lead and lead compounds	1	0	0
Styrene	233	0	0
Toluene	65	37	1
Xylene	728	767	822
category 2 substances	**1,027**	**804**	**824**

16.4.5 Water

Signify recognizes the growing importance of water usage in our everyday activities. As we continue to expand our portfolio of LED products, systems, and services, the water intensity of our operations continues to decrease. Despite this, some of our manufacturing facilities are located in areas with water stress, such as Saudi Arabia, Mexico and parts of the United States, and 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 23% of our global water consumption is located in regions classified as having high-water scarcity.

While some of our facilities have reuse and recycling measures in place, we continued to implement and identify new and more efficient water saving measures as well as continuing our transition to technology and business models which have a lower dependency on water. We aim to reduce our water usage by 5% annually.

Total water intake in 2021 was 1,432,000 m3, 47% higher than 2020 (971,000 m3). This increase was mainly due to the inclusion of our new acquisitions in our 2021 reporting.

47% of our water intake is used for domestic purposes.

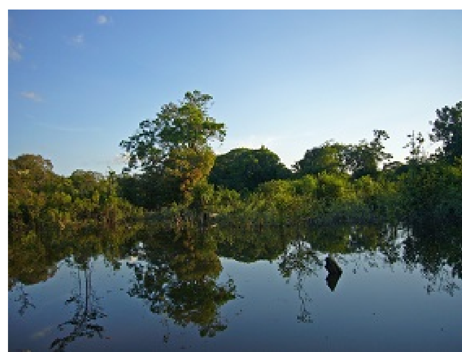
Water intake in thousands of m3

	2019	2020	2021
Total water	944	971	1,432

Based on our methodology for calculating societal impact, we caused EUR 3.17 million in costs to society through our water usage.

16.4.6 Biodiversity

We acknowledge that it is our responsibility to identify our negative and positive impacts and to take action for biodiversity conservation.



Poor quality lighting can increase light pollution and sky glow and as a consequence can negatively impact biodiversity. To ensure that animals, such as bats, are not disturbed by artificial lighting during night-time activities, Signify designed a new light spectrum. The light recipe helps in maintaining a balanced ecosystem by displaying minimal attraction for insects, enabling bats to behave the same way as if it was full darkness and preventing lit roads from acting as borders or obstacles to be crossed at night.

In 2021, Signify assessed the location of its manufacturing sites to identify potential presence in key biodiversity areas or protected areas using the Integrated Biodiversity Assessment Tool (IBAT). Key biodiversity areas are sites contributing significantly to the global persistence of biodiversity. Protected areas are classified according to their management objectives, and examples of protected areas are strict nature reserve, wilderness area, or protected landscape (source: International Union for Conservation of Nature). Signify uses a total of 179 hectares of land for its manufacturing activities. None of Signify manufacturing sites are located in a protected area, and one is located in a key biodiversity area.

In 2021, we continued to contribute to conserving and restoring forests, and safeguarding biodiversity in different regions through our carbon offsetting projects and partnership with South Pole. 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 protected. Our landscape reforestation project in Uruguay restored more than 4,500 hectares of forest. Based on our methodology for calculating societal impact, we created EUR 55 million for society through conserving and restoring forest in 2021.

16.4.7 Environmental incidents

In 2021, Signify experienced no significant environmental incidents.

16.5 EU Taxonomy reporting

The European Commission has established the EU Taxonomy as an important enabler to scale up sustainable investments and make the EU carbon neutral by 2050. At Signify, we want to be a catalyst for change, and are committed to doubling our positive impact on the environment and society. We continuously seek opportunities to increase transparency and showcase our leadership.

The EU Taxonomy reporting framework

To define what is 'sustainable', the European Commission has developed a catalog of economic activities, each with criteria to determine if they substantially contribute towards a sustainable economy – known as the EU Taxonomy. Companies across diverse sectors, supply chains, and asset classes must use this classification system to assess if their business activities are sustainable according to the Taxonomy. In June 2021, the Commission formally adopted the Climate Delegated Act, establishing the criteria defining which activities substantially contribute to the first two, out of six, environmental objectives of the Taxonomy regulation, namely climate change mitigation and climate change adaptation. The remaining four have been planned to be added in 2022.

Reporting requirements

For its financial year 2021, Signify shall disclose eligibility on the first two environmental objectives (climate change mitigation and climate change adaptation); this means, the proportion of Taxonomy-eligible and Taxonomy non-eligible economic activities in its total sales, capital and operational expenditure.

The next step will be to ensure that Signify meets the technical screening criteria associated with each Taxonomy-eligible activity, the 'do no significant harm' (DNSH) criteria and the minimum social safeguards. As the EU requirements for reporting on Taxonomy-aligned activities come into force in January 2023, we will disclose this in our 2022 Annual Report.

2021 disclosure requirements

	Sales [1]	CapEx [2]	OpEx [3]
Taxonomy-eligible	45%	51%	44%
Taxonomy-non-eligible	55%	49%	56%
Total (EUR million)	6,860	213	456

1 Refer to chapter 14, Consolidated financial statements, note 3, of this Annual Report
2 Refer to chapter 14, Consolidated financial statements, notes 13 and 15, of this Annual Report
3 No reference applicable

As reported in section 16.4, in 2021, Signify Climate action revenues were between 61% and 64% (midrange of 62.5% used in this section). The difference with the EU Taxonomy-eligible sales percentage (45%) is explained by excluding sales from those products manufactured by external suppliers. 51% of our CapEx were Taxonomy-eligible and are investments enabling manufacturing of Climate action products. 44% of our OpEx were Taxonomy-eligible and mainly relate to R&D in developing Climate action products.

Signify 2021 assessment

Taxonomy-eligible activities

The currently available definitions as included in the Taxonomy are broadly formulated which leads to companies having to interpret how this applies to its business activities and the impact thereof on eligibility. To our knowledge and understanding, we applied judgment, interpretations and assumptions based on currently available information. Future guidance could result in more accurate definitions and other decision-making in meeting reporting obligations, which could impact our future Taxonomy reporting.

Signify assessed its main economic activities and believe these are materially represented under the following NACE codes:

- C27.40 Manufacture of electric lighting equipment
- F43.21 Electrical installation
- G46.47 Wholesale of furniture, carpets and lighting equipment
- N77.40 Leasing of intellectual property and similar products, except copyrighted works

This assessment is subject to certain management judgements and interpretations of the Taxonomy regulation. Signify determines sales from self-manufactured products part of C27.40. Sales from products manufactured by external suppliers, part of G46.47. We concluded that our activities captured under C.27.40 and F43.21 are Taxonomy-eligible. Signify's activities captured under C27.40 are manufacturing activities of indoor and outdoor lighting products and systems. Signify's activities captured under F43.21 are installation of lighting equipment.

Taxonomy-eligible sales

Signify defines Taxonomy-eligible sales as sales from products in its portfolio using its Climate action revenues definition (see section 16.4.1 of this chapter), excluding sales from those products manufactured by external suppliers.

Taxonomy-eligible capital expenditure (CapEx) and operating expenditure (OpEx)

Signify has defined each economic activity at Business Unit (BU) level. Signify used the percentage of Taxonomy-eligible sales per BU and multiplied this to the total BU CapEx to approximate the Taxonomy-eligible CapEx. The same approach is used to approximate Taxonomy-eligible OpEx. Signify defines CapEx under the Taxonomy as investments in tangible and intangible assets, including right-of-use assets and assets resulting from business combinations (excluding goodwill). Signify's defines OpEx under the Taxonomy as directly incurred, non-capitalized costs relating to research and development, building renovations, short-term leases and the repair and maintenance of property, plant and equipment and other fixed asset costs. As these costs are not separately disclosed in the Annual Report a reference cannot be made. A full reconciliation was made to the total reported sales, CapEx and OpEx information to avoid double counting in the allocation of the numerators.

17 Combined independent auditor's report

On the 2021 financial statements and sustainability information

To: the general meeting of shareholders and Supervisory Board of Signify N.V.

Our opinions

We have audited the financial statements 2021 of Signify N.V. (hereafter: the Company) based in Eindhoven,
the Netherlands. The financial statements comprise the consolidated and company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Signify N.V. as at December 31, 2021 and of its result and its cash flows for 2021 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, 2021 and of its result for 2021 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 2021 of Signify N.V. based in Eindhoven, the Netherlands (hereafter: the annual report). The scope is described in the section Our Scope of our report. 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 2021

in accordance with the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI Standards) and the applied supplemental reporting criteria as disclosed in chapter 16, Sustainability statements, section 16.1, of this Annual Report 2021, of Signify N.V.

Basis for our opinions

We conducted our audit of the financial statements and our audit of the sustainability information in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N "Assurance engagements relating to sustainability reports" respectively, which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". Our responsibilities under those standards are further described in the section Our responsibilities of our report.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our independence

We are independent of Signify N.V.
in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties"
(Wta, Audit firms supervision act), the

"Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)".

Our scope

Our engagements scope

The consolidated financial statements comprise:
- the consolidated statement of financial position as at December 31, 2021
- the following statements for 2021: the consolidated statement of income, comprehensive income, cash flows and changes in equity
- the notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:
- the company balance sheet as at December 31, 2021
- the company profit and loss account for 2021
- the notes comprising a summary of the accounting policies and other explanatory information

The sustainability information is included in chapter 3, Creating long-term value, sections 3.2 and 3.3, chapter 4, Corporate performance, section 4.2, and chapter 16, Sustainability statements, sections 16.1 to 16.4 of this Annual Report.

Limitations to the scope of our audit engagement on the sustainability information

The sustainability information includes prospective information, such as goals, strategy, plans, forecasts, expectations and estimates. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information.

With regards to the Company's sustainability information, the 2019 baseline is based on Signify's best estimates available at the time of establishing the Brighter Lives, Better World 2025 doubling commitments. Furthermore, we understand Signify is working on further improvements on both availability and accuracy of the data used in its sustainability reporting. Therefore, neither the 2019 baseline assumptions, nor the 'Double the pace of the Paris Agreement' are included in the scope of our audit engagement of the sustainability information. We refer to chapter 16, Sustainability statements, sub-section 16.4.1 of this Annual Report for more information.

Calculations to determine societal impact as included in chapter 3, Creating long-term value, section 3.3, of this Annual Report are mostly based on external sources and by using several assumptions. The assumptions and sources used are explained in the document 'Methodology for societal impact calculations' and the 'Supplement to the 2021 Sustainability statements' as available on the website of Signify N.V. We have not performed procedures on the assumptions or external sources, other than evaluating the suitability and plausibility of these assumptions and external sources used.

The references to external sources or websites in the sustainability information are not part of the sustainability information as audited by us. We therefore do not provide assurance on this information.

Our opinion is not modified in respect of these matters.

Reporting criteria

The information in the scope of our engagements needs to be read and understood together with the reporting criteria. Signify N.V. is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting. The reporting criteria used for the preparation of this Annual Report are described in the section Our opinions, of our report.

The absence of an established practice on which to draw, to evaluate and measure sustainability information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Information in support of our opinions

We designed our audit procedures in the context of both our audit of the financial statements and our audit of the sustainability information as a whole and in forming our opinions thereon. The following information in support of our opinions and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Our understanding of the business

Signify N.V. is a global provider of lighting solutions. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment. We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements and the sustainability information, whether due to fraud 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 opinions. The risk that the financial statements or 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Materiality

General

The scope of our audit procedures is influenced by the application of materiality. Our audit engagements aim to provide assurance about whether the financial statements and the sustainability information

are free from material misstatement. Misstatements may arise due to fraud or errors. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the (economic) decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our assurance procedures and the evaluation of the effect of identified misstatements on our conclusions.

Financial statements

Materiality	€ 32 million (2020: € 26 million)
Benchmark applied	4% of adjusted earnings before interest, tax and amortization ('adjusted EBITA')
Explanation	Based on our professional judgment we consider earnings-based measures as the most appropriate basis to determine materiality. Adjustments are made to earnings before interest, taxes and amortization for elements which are not directly related to the operational performance of the company as disclosed in chapter 18, Reconciliation of non-IFRS financial measures, of this Annual Report. We changed the benchmark applied from adjusted profit before taxes as applied in 2020 to adjusted EBITA for 2021 to better align with the company's key performance measures.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements in excess of € 1.5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Sustainability information

Based on our professional judgment we determined specific materiality levels for each relevant part of the sustainability information and for the sustainability information as a whole. When evaluating our materiality levels, we have taken into account quantitative and qualitative considerations as well as the relevance of information for both stakeholders and the organization.

We have agreed with the Supervisory Board that misstatements which are identified during the audit and which in our view must be reported on quantitative or qualitative grounds, would be reported to them.

Scope of the group audit of the financial statements

Signify N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit.

In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

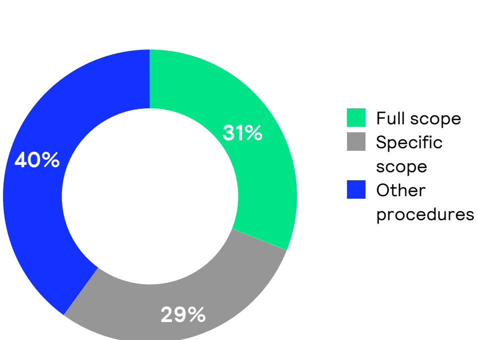
Due to the COVID-19 pandemic the direction, supervision and performance of the group audit engagement were performed remotely. The review of audit work papers of component teams was facilitated by having remote access to component teams' electronic audit file platforms, by screen sharing and obtaining copies of work papers directly from the component teams. We increased the frequency and attendance of our interactions with component teams.

Following our assessment of the risk of material misstatement to Signify N.V.'s consolidated financial statements, we have selected 2 components which required an audit of the complete financial information (Full Scope Components). We have selected 28 components requiring audit procedures on specific account balances that we considered to have the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile (Specific Scope Components). We used the work of other EY member firms when auditing entities outside the Netherlands. We centrally performed audit procedures on accounting areas which are managed centrally such as goodwill, legal claims and treasury.

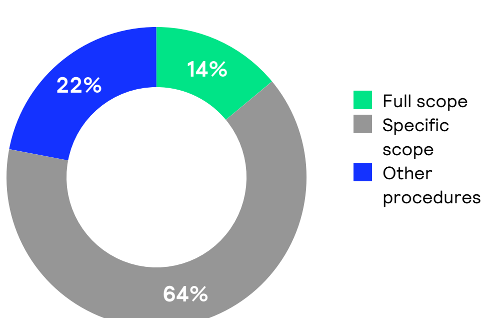
As a result of our scoping, our actual coverage varies per account balance. In addition, the level of detail of our audit procedures per account balance varies depending on our risk assessment.

Of the remaining components, we performed risk-based analytical procedures to respond to any potential risks of material misstatements to the financial statements.

Accordingly, our coverage of the group's Revenues and Total Assets can be summarized as follows:



Total assets



By performing the procedures mentioned above at components of the group, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in Signify's industry. We included specialists in the areas of IT audit, forensics, treasury and income tax and have made use of our own experts in the areas of valuations and actuaries.

Our focus on climate risks and the energy transition

Climate objectives will be high on the public agenda in the next decades. Issues such as CO2 reduction impact financial reporting, as these issues entail risks for the business operation, the valuation of assets ('stranded assets') and provisions or the sustainability of the business model and access to financial markets of companies with a larger CO2 footprint.

As part of our audit of the financial statements, we evaluated the extent to which climate-related risks and the possible effects of the energy transition are taken into account in estimates and significant assumptions as well as in the design of relevant internal control measures by Signify N.V. Furthermore, we read the management board report and considered whether there is any material inconsistency between the non-financial information in chapter 16 Sustainability statements and the financial statements.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and we cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that both the financial statements and the sustainability information taken as a whole, are free from material misstatement, whether caused by fraud or error.

Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements and the sustainability information due to fraud. During our audits we obtained an understanding of the entity and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the Supervisory Board exercises oversight, as well as the outcomes. We refer to chapter 12, Risk factors and risk management, of this Annual Report for management's (fraud) risk assessment and to chapter 8, Supervisory Board report, section 8.2, in which the Supervisory Board reflects on this (fraud) risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct, whistle blower procedures and incident registration. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness, of internal controls designed to mitigate fraud risks.

We considered available information and made inquiries of relevant executives, directors (including internal audit, legal, compliance and heads of Divisions) and the Supervisory Board. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present. As Signify N.V. is a global company, operating in multiple jurisdictions, we considered the risk of bribery and corruption.

As in all of our audits, when identifying and assessing fraud risks, we presumed that there are risks of fraud in revenue recognition and risks related to management override of controls.

Presumed risk of fraud in revenue recognition and management override of controls	
Fraud risk	When identifying and assessing fraud risks we presume that there are risks of fraud in revenue recognition and management override. We evaluated that revenue from sales of goods recognized at a point in time in particular gives rise to such risks. We also considered whether the judgments and assumptions in the determination of these revenues indicate a management bias that may represent a risk of material misstatement due to fraud.
Our audit approach	We performed among others the following audit procedures, directed specifically to these fraud risks: • We have used data analysis to identify and address high-risk journal entries • 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 section 'Basis of preparation' in note 1 to the financial statements • Furthermore, we examined the business rationale of significant transaction with related parties or that otherwise appeared to be unusual We further describe our audit procedures responsive to the presumed risk of fraud in revenue recognition and management override in the description of our key audit matter 'Improper revenue recognition and risk of management override'.

The fraud risks we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements or the sustainability information.

We incorporated elements of unpredictability in our audits. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

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 management board, reading minutes, inspection of internal audit and compliance reports, and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Our audit response related to going concern

As disclosed in section 'Basis of preparation' in note 1 to the financial statements, management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next 12 months. We discussed and evaluated the specific assessment with management exercising professional judgment and maintaining professional skepticism.

We considered whether management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all 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.

Based on our procedures performed, we did not identify significant doubts on Signify's ability to continue as a going concern for the next 12 months.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements and our audit of the sustainability information. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

The following key audit matters are modified, excluded or new compared to the key audit matters included in our last year's auditor's report:

Key audit matters for the audit of the financial statements

Key audit matter 2020	Change	Reason for change
Valuation of deferred tax assets and liabilities for uncertain tax positions	Modified	The key audit matter has been changed to "Valuation of uncertain tax positions (assets and liabilities)". Valuation of deferred tax assets is no longer considered a key audit matter as the risk of not recovery decreased following the changes in the organizational structure in 2020
Valuation of goodwill	Excluded	The risk that goodwill is impaired decreased following the increase in headroom (difference between the recoverable amount and its carrying amount) in the annual impairment test
Acquisition of Cooper Lighting	Excluded	Accounting for the acquisition (including its significant estimations) was largely completed as part of the 2020 consolidated financial statements. In 2021 there were no material adjustments to the preliminary accounting assessments performed

For the audit of the sustainability information

Key audit matter 2020	Change	Reason for change
Reporting for Sustainable Revenues	Excluded	This matter is addressed as part of our new key audit matter "Brighter Lives, Better World 2025" program: commitments and criteria
Estimates and assumptions concerning the calculated impact of avoided CO_2 as presented in the value creation model	Excluded	This matter is addressed as part of our new key audit matter "Brighter Lives, Better World 2025" program: commitments and criteria
Brighter Lives, Better World 2025 program: commitments and criteria	New	Signify's newly formulated Brighter Lives, Better World 2025 program identified new commitments and related criteria as further detailed in the description of the key audit matter
Inclusion of Cooper Lighting and Klite in sustainability reporting	New	In 2021, the sustainability information of both companies acquired in previous years will be reported in the sustainability information for the first time as further detailed in the description of the key audit matter

The key audit matters were addressed in the context of our audit procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate opinion on these matters.

For the audit of the financial statements we identified the following key audit matters.

Risk	Our audit approach	Key observations
Improper revenue recognition and risk of management override		
Revenue from the sale of goods is recognized at the point in time that the customer obtains control of the goods. For standard sale of products, control generally passes to the customer at the time the product is delivered and accepted, depending on the delivery conditions. Management focuses on sales as a key performance measure which could create an incentive to recognize revenues in the incorrect period due to the pressure management may feel to achieve desired results. Further reference is made in chapter 14, Consolidated financial statements, note 2, of this Annual Report We assessed that improper revenue recognition due to risk of management override relating to material projects and sale of goods, represents a key audit matter.	Our audit procedures included: • the assessment of the appropriateness of the company's revenue recognition accounting policies • obtaining an understanding of the design of key controls in the revenue recognition process • the use of data-analytics to audit key risk areas and identify exceptional or unusual revenue streams and patterns • detailed testing of significant sales contracts and • performing cut-off procedures to ensure revenue is recognized in the correct period	We concur with the revenue recognized in the financial statements.

Risk	Our audit approach	Key observations
Valuation of uncertain tax positions (assets and liabilities)		
At December 31, 2021, uncertain tax positions are recognized as part of the net deferred tax assets of € 454 million and the income tax payable under non-current liabilities of € 118 million. Further reference is made in chapter 14, Consolidated financial statements, note 9, of this Annual Report. 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, resulting in uncertain tax positions. The accounting for uncertain tax positions is a focus area in our audit as the company has extensive international operations and is required to make judgments and estimates. These judgments and estimates relate to, among others, the tax risks as disclosed in note 9, on the valuation of deferred tax assets and liabilities for uncertain tax positions.	Together with our tax experts we evaluated the tax accounting in various jurisdictions the company operates in, taking into account the impact of the local jurisdictions. We specifically focused on the tax uncertainties as disclosed in chapter 14, Consolidated financial statements, note 9, of this Annual Report. We evaluated and challenged the company's judgments and estimates of uncertain tax positions resulting from ongoing local tax audits and legislative developments, and relevant historical and recent judgments. Where possible, we compared information provided by management to corroborative or contradictory information. We also assessed the adequacy of the company's disclosure included in note 9 in respect of deferred tax assets and other tax liabilities related to tax uncertainties.	We concur with the estimates and assumptions made by management relating to the valuation of uncertain tax positions (assets and liabilities), and conclude the related disclosures to be sufficient.

For the audit of the sustainability information, we identified the following key audit matters:

Risk	Our audit approach	Key observations
Brighter Lives, Better World 2025 program: commitments and criteria		
Signify has launched its Brighter Lives, Better World 2025 program and committed to continue and strengthen its sustainability targets for 2025. As part of this program, new targets and reporting criteria ('doubling objectives') are disclosed for the first time in the Annual Report 2021. Further reference is made in chapter 3, Creating long-term value, section 3.1, of this Annual Report, in the sustainability information. As these commitments are disclosed for the first time, it is important to have a clear understanding of the suitability of the criteria and the sufficiency of disclosures applied.	Our procedures focused on evaluating whether the self-developed reporting criteria for these doubling objectives are suitable. Our audit procedures included: • obtaining an understanding of the reporting processes • evaluating and challenging management's judgments and estimates applied • evaluating the appropriateness of the reporting criteria used • assessing if the disclosures of the reporting criteria are sufficient for a proper understanding by the reader Further reference is made to the sustainability information, as referred in chapter 16, Sustainability statements, sub-section 16.1.4, of this Annual Report.	We concur with management's judgements and estimates applied, appropriateness of the reporting criteria used and, the sufficiency of the disclosures in the sustainability information relating to the reporting criteria for the 2025 commitments.

Risk	Our audit approach	Key observations
Inclusion of Cooper Lighting and Klite in sustainability reporting		
Based on the reporting principles of Signify the normative period is two years to include new acquisitions in the sustainability information. The acquisitions of Klite (completed in 2019) and Cooper Lighting (completed in 2020) are included in the 2021 sustainability information for the first time (as disclosed in chapter 16, Sustainability statements, sub-section 16.1.4, of this Annual Report). Misalignment between Signify's sustainability reporting principles and its acquired businesses could lead to inaccurate and incomplete sustainability information.	Specific assurance procedures have been performed to assess the accuracy and completeness of the inclusion of Cooper Lighting and Klite in the sustainability information. Our audit procedures related to Cooper Lighting and Klite include: • obtaining an understanding of the reporting processes • validating consistency of applied definitions • evaluating and challenging management's judgments and estimates applied • obtaining supporting evidence that the sustainability data reconciles with underlying records • detailed testing of sustainability data with source documentation Further reference is made to the sustainability information in chapter 16, Sustainability statements, sub-section 16.1.4, of this Annual Report.	We concur with the inclusion of Cooper Lighting and Klite in the sustainability information, considering the disclosures made in relation to the impact of the acquisitions in chapter 16, Sustainability statements, sub-section 16.1.4, of this Annual Report.

Report on other information included in the annual report

The annual report contains other information in addition to the financial statements, the sustainability statements in chapter 16, Sustainability statements, sections 16.1 to 16.4, of this Annual Report, and our auditor's report thereon. The other information comprises:

- The report of the Board of Management
- The remuneration report
- Other information required by Part 9 of Book 2 of the Dutch Civil Code
- Sustainability statements in section 16.5
- Corporate Governance report

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 for the report of the Board of Management and the other information as required by Part 9 of Book 2 of the Dutch Civil Code and as required by sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code for the remuneration report.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 and section 2:135b 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.

Management is responsible for the preparation of the other information, including the report of the Board of Management in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code. Management and the Supervisory Board are responsible for ensuring that the remuneration report is drawn up and published in accordance with sections 2:135b and 2:145 sub-section 2 of the Dutch Civil Code. In accordance with the Dutch Corporate Governance Code, the Supervisory Board renders account of the implementation of the remuneration policy in 2021 in the remuneration report, as prepared by the Remuneration Committee.

Report on other legal and regulatory requirements and ESEF

Engagement

We were engaged by the Supervisory Board as auditor of Signify N.V. (formerly: Philips Lighting N.V.) on July 15, 2016, as of the audit for the year 2016 and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

Our services are only related to the audit of the financial statements or audit related services.

European Single Electronic Reporting Format (ESEF)

Signify N.V. has prepared the annual report in ESEF. The requirements for this are set out in the Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format (hereinafter: the RTS on ESEF).

In our opinion, the annual report, prepared in the XHTML format, including the partially marked-up consolidated financial statements, as included in the reporting package by Signify N.V., complies in all material respects with the RTS on ESEF

Management is responsible for preparing the annual report, including the financial statements, in accordance with the RTS on ESEF, whereby management combines the various components into a single reporting package.

Our responsibility is to obtain reasonable assurance for our opinion whether the annual report in this reporting package complies with the RTS on ESEF.

Our procedures, taking into account Alert 43 of the NBA (the Netherlands Institute of Chartered Accountants), included amongst others:

- obtaining an understanding of the Signify N.V.'s financial reporting process, including the preparation of the reporting package
- obtaining the reporting package and performing validations to determine whether the reporting package containing the Inline XBRL instance document and the XBRL extension taxonomy files, has been prepared in accordance with the technical specifications as included in the RTS on ESEF
- examining the information related to the consolidated financial statements in the reporting package to determine whether all required mark-ups have been applied and whether these are in accordance with the RTS on ESEF.

Description of responsibilities

Responsibilities of management and the Supervisory Board

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-

IFRS and Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of reliable and adequate sustainability information in accordance with the GRI Standards and the applied supplemental reporting criteria as disclosed in chapter 16, Sustainability statements, section 16.1, of this 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 this 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 is free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing Signify N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the Signify N.V.'s ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Signify N.V.'s reporting process.

Our responsibilities

Our objective is to plan and perform the audit engagements in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinions.

Our audits of the financial statements and the sustainability information have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud.

We apply the "Nadere voorschriften kwaliteitssystemen" (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

An informative summary of the work performed as the basis of our conclusions is included in the Annex to the combined independent auditor's report.

Amsterdam, the Netherlands
February 22, 2022

Ernst & Young Accountants LLP

A.E. Wijnsma

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 Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements. The 'Information in support of our opinions' section in the combined independent auditor's report should be read in conjunction with the information in this annex as the basis for our opinions.

Our audit to obtain reasonable assurance about the financial statements (consolidated and company) included amongst others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our audit to obtain reasonable assurance about the sustainability information included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant 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 made by management
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Identifying and assessing the risks 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. These further audit procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability strategy, policy and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
  - Determining the nature and extent of the audit procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. Visits to production sites in USA and Belgium aimed at, on a local level, validating source data and to evaluate the design, implementation and operation of controls and validation procedures.
  - Evaluating whether the assumptions used in the calculation of the societal impact as included in chapter 3, Create long-term value, section 3.3, of this Annual Report are plausible, which are included in the Methodology for societal impact calculations
  - Evaluating the suitability and plausibility of the external sources used in the calculations on which the societal impact as included in the section 3.3, of this Annual Report is based, which are included in the Methodology for societal impact calculations
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the sustainability information
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit
- Evaluating the overall presentation, structure and content of the sustainability information and
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

Communication

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our

independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements and the audit of the sustainability information. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

18 Reconciliation of non-IFRS financial measures

Explanation of non-IFRS financial measures

Certain parts of this Annual Report contain financial measures that are not measures of financial performance or liquidity under IFRS. These are commonly referred to as non-IFRS financial measures and include items such as comparable sales growth, adjusted gross margin, 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 Division and Market Group basis. Comparable sales growth is also used by the company as a key financial measure to assess the operating performance of the Divisions and Market Groups.

Sales growth composition per business in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Digital Solutions	3.4	(2.3)	7.3	8.3
Digital Products	8.8	(1.5)	(0.1)	7.2
Conventional Products	(6.9)	(1.7)	0.0	(8.7)
Signify	**3.8**	**(2.0)**	**3.6**	**5.5**

Sales growth composition per market in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	3.4	0.0	(0.2)	3.1
Americas	1.4	(4.0)	8.5	5.9
Rest of the World	7.9	(1.5)	0.1	6.6
Global businesses	6.3	(0.6)	4.6	10.3
Signify	**3.8**	**(2.0)**	**3.6**	**5.5**

EBITA and Adjusted EBITA

The company discloses EBITA, Adjusted EBITA and Adjusted EBITA ratio as supplemental non-IFRS financial measures, as the company believes these are meaningful measures to evaluate the performance of the company's business activities over time. The company understands that these measures are used by analysts, rating agencies and investors in assessing the company's performance. The company presents EBITA, Adjusted EBITA and Adjusted EBITA ratio on a Division basis. The company also believes that the presentation of EBITA, Adjusted EBITA and Adjusted EBITA ratio provide useful information to investors on the development of the company's business and enhance the ability of investors to compare profitability across the Divisions. In the case of EBITA, the company believes that it makes the underlying performance of its businesses more transparent by factoring out the amortization and impairment of acquisition-related intangible assets and goodwill, which arises when acquisitions are consolidated by the company. In the case of Adjusted EBITA and Adjusted EBITA ratio, the company believes that these measures make the underlying performance of its businesses more transparent by factoring out restructuring costs, acquisition-related charges and other incidental charges which are not directly related to the operational performance of a Division. EBITA, Adjusted EBITA and Adjusted EBITA ratio are also used by the company as key financial measures to assess the operating performance of the Divisions.

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

2021	Signify	Digital Solutions	Digital Products	Conventional Products	Signify Other
Adjusted EBITA	795	397	339	161	(102)
Restructuring	(86)	(19)	(4)	(5)	(58)
Acquisition-related charges	(50)	(49)	(1)	–	–
Incidental items	(22)	(11)	(10)	2	(4)
EBITA	**636**	**318**	**323**	**158**	**(164)**
Amortization [1]	(122)	(114)	(7)	–	(1)
Income from operations (EBIT) [2]	**514**	**205**	**316**	**158**	**(165)**
2020					
Adjusted EBITA	695	330	295	170	(100)
Restructuring	(83)	(30)	(10)	(23)	(19)
Acquisition-related charges	(63)	(62)	(1)	–	–
Incidental items	(13)	(8)	(6)	3	(1)
EBITA	**536**	**230**	**277**	**149**	**(120)**
Amortization [1]	(120)	(111)	(8)	–	(1)
Income from operations (EBIT) [2]	**416**	**119**	**269**	**149**	**(122)**

[1] Amortization and impairments of acquisition-related intangible assets and goodwill.
[2] For a reconciliation to income before taxes, refer to note 3, Information by segment and main country, in chapter 14, Consolidated financial statements, of this Annual Report.

Adjusted gross margin

The company discloses adjusted gross margin as a supplemental non-IFRS financial measure. The company believes it is a meaningful measure to evaluate the company's gross margin on a comparable basis over time. The measure factors out restructuring costs, acquisition-related charges and other incidental charges attributable to cost of sales which are not directly related to the operational performance of the company. Adjusted gross margin is also used by the company as a key financial measure to assess the operating performance of the company.

Adjusted indirect costs: adjusted SG&A costs and adjusted R&D costs

The company discloses adjusted SG&A costs and adjusted R&D costs as supplemental non-IFRS financial measure. The company believes they are meaningful measures to evaluate the company's SG&A costs and R&D costs on a comparable basis over time. The measures 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

2021	Reported	Restruc-turing	Acquisition related charges	Incidental items [1]	Adjusted
Sales	6,860	–	–	–	6,860
Cost of sales	(4,189)	19	8	4	(4,157)
Gross margin	**2,671**	**19**	**8**	**4**	**2,702**
Selling, general and administrative expenses	(1,882)	66	43	25	(1,748)
Research and development expenses	(286)	1	–	–	(284)
Indirect costs	**(2,168)**	**67**	**44**	**25**	**(2,032)**
Impairment of goodwill	–	–	–	–	–
Other business income	19	–	(2)	(11)	7
Other business expenses	(8)	–	–	4	(5)
Income from operations	**514**	**86**	**50**	**22**	**673**
Amortization	(122)	–	–	–	(122)
Income from operations excluding amortization (EBITA)	**636**	**86**	**50**	**22**	**795**
2020					
Sales	6,502	–	–	–	6,502
Cost of sales	(4,004)	41	21	(4)	(3,946)
Gross margin	**2,499**	**41**	**21**	**(4)**	**2,556**
Selling, general and administrative expenses	(1,781)	23	44	20	(1,695)
Research and development expenses	(307)	20	1	–	(287)
Indirect costs	**(2,088)**	**42**	**45**	**20**	**(1,982)**
Impairment of goodwill	–	–	–	–	–
Other business income	12	–	(2)	(2)	8
Other business expenses	(7)	–	–	–	(7)
Income from operations	**416**	**83**	**63**	**13**	**575**
Amortization [1]	(120)	–	–	–	(120)
Income from operations excluding amortization (EBITA)	**536**	**83**	**63**	**13**	**695**

[1] Incidental items are non-recurring by nature and relate to separation, transformation, net real estate gains, environmental provision for inactive sites and the effect of changes in discount rates on long-term provisions..

Free cash flow

The company discloses free cash flow as a supplemental non-IFRS financial measure, as the company believes it is a meaningful measure to evaluate the performance of the company's business activities over time. The company understands that free cash flow is broadly used by analysts, rating agencies and investors in assessing the company's performance. The company also believes that the presentation of free cash flow provides useful information to investors regarding the cash generated by the company's operating activities after deducting cash outflows for additions of intangible assets, capital expenditures on property, plant and equipment and proceeds from disposal of property, plant and equipment. Therefore, the measure gives an indication of the long-term cash generating ability of the company's business. In addition, because free cash flow is not impacted by purchases of businesses, it is less volatile than the total of cash flows from operating and investing activities. Free cash flow is also used by the company as a key financial measure to assess the operating performance of the company.

Composition of cash flows in millions of EUR

	2020	2021
Cash flows from operating activities	891	704
Cash flows from investing activities	(1,379)	(91)
Cash flows before financing activities	**(488)**	**613**
Cash flows from operating activities	891	704
Net capital expenditures:		
• Additions of intangible assets	(32)	(34)
• Capital expenditures on property, plant and equipment	(67)	(84)
• Proceeds from disposal of property, plant and equipment	25	27
Free cash flows	**817**	**614**

Free cash flows in millions of EUR

	2020	2021
Digital Solutions [1]	436	364
Digital Products [1]	406	383
Conventional Products [1]	188	136
Other	(213)	(270)
Signify total	**817**	**614**

[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

	2020	2021
Short-term debt	86	77
Long-term debt	2,221	1,931
Gross debt	**2,307**	**2,007**
Cash and cash equivalents	(1,033)	(851)
Net debt	**1,275**	**1,156**
Shareholders' equity	2,196	2,459
Non-controlling interests	124	138
Total equity	**2,321**	**2,597**
Net debt and total equity	3,595	3,753
Net debt divided by net debt and total equity (in %)	35%	31%
Total equity divided by net debt and total equity (in %)	65%	69%

Working capital

The company discloses working capital as a supplemental non-IFRS financial measure, as the company believes it is a meaningful measure to evaluate the company's ability to maintain a solid balance between growth, profitability and liquidity. Working capital is broadly analyzed and reviewed by analysts and investors in assessing the company's performance. This measure serves as a metric for how efficiently a company is operating and how financially stable it is in the short term. It is an important measure of a company's ability to pay off short-term expenses or debts.

Working capital to total assets in millions of EUR

	2020	2021
Working capital	**313**	**250**
Eliminate liabilities comprised in WoCa:		
• Trade and other payables	1,731	2,334
• Derivative financial liabilities	44	44
• Other current liabilities	213	213
Include assets not comprised in WoCa:		
• Non-current assets	4,334	4,536
• Income tax receivable	39	24
• Cash and cash equivalents	1,033	851
• Assets classified as held for sale	3	3
Total assets	**7,710**	**8,256**

19 Definitions and abbreviations

Acquisition-related charges
Costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses.

Adjusted EBITA
EBITA excluding restructuring costs, acquisition-related charges and other incidental charges.

Adjusted EBITA margin
Adjusted EBITA divided by sales to third parties (excluding intersegment).

Adjusted gross margin
Gross margin, excluding restructuring costs, acquisition-related charges and other incidental items attributable to cost of sales.

Adjusted indirect costs
Indirect costs, excluding restructuring costs, acquisition-related charges and other incidental items attributable to indirect costs.

Adjusted research and development (R&D) expenses
Research and development expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to research and development expenses.

Adjusted selling, general and administrative (SG&A) expenses
Selling, general and administrative expenses, excluding restructuring costs, acquisition-related charges and other incidental items attributable to selling, general and administrative expenses.

Ballasts
Lamp control gear inserted between the supply and one or more discharge lamps, which, by means of inductance, capacitance or a combination of inductance and capacitance, serves mainly to limit the current of the lamp(s) to the required value.

Brighter lives revenues
Revenues measured as a percentage of total revenues coming from all products, systems and services contributing to Food availability, Safety & security or Health & well-being.

Capital employed
The sum of equity and net debt (excluding pension liabilities).

Carbon footprint
Carbon footprint is expressed in CO_2-equivalent or carbon dioxide equivalent, which is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specific timescale (generally 100 years). Signify measures its carbon footprint over its value chain (scope 1, 2 and 3) which include emissions from industrial sites, non-industrial sites, business travel, logistics, purchased goods and services, capital goods, fuel-and-energy-related activities, employee commuting, waste generated in operations, end of life treatment of sold products, and use of sold products. Our carbon neutrality commitment covers Signify operations, meaning scope 1, 2 and part of scope 3 for Business travel and logistics. Signify net operational carbon footprint = Signify gross operational carbon footprint - Amount of carbon offset through our carbon offsetting programs.

Circular revenues
Revenues measured as a percentage of total revenues coming from products, systems and services designed to preserve value and avoid waste categorized as Serviceable luminaires (incl. 3D-printing), Circular components, Intelligent systems or Circular services.

Climate action revenues
Revenues measured as a percentage of total revenues coming from energy efficient and solar products, systems and services which helps to save energy and reduce carbon footprint with the following criteria: Products which meet strict luminous efficacy thresholds (between 80 and 110 lm/W depending on lumen output) to reduce energy consumption; Systems and Managed Services which enable further energy savings (up to 80% total) by optimizing the lighting use; Solar solutions as these are powered by renewable energy; or Electronic control gears which optimize the energy and light performance of the light source.

Compact fluorescent light (CFL)
CFLs usually combine a fluorescent light with an incandescent fixture.

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

Conventional lamps
Non-LED based light-emitting light sources, including incandescent lamps, halogen lamps, fluorescent lamps and high intensity discharge lamps.

Conventional luminaires
Light fixtures with a conventional socket (e.g., a screw socket for a conventional lamp or LED lamp).

EBIT
Income from operations.

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

EBITDA
Income from operations excluding depreciation, amortization and impairment of non-financial assets.

Effects of changes in consolidation and other changes
In the event a business is acquired (or divested), the impact of the consolidation (or de-consolidation) on the company's figures are included (or excluded) in the comparable figures. Other changes include regulatory changes and changes originating from new accounting standards.

Effects of currency movements
Calculated by translating the foreign currency financials of the previous period and the current period into euros at the same average exchange rates.

Electronics
Units that regulate the current going through a light source.

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

Employee Net Promoter Score (NPS)
The Net Promoter Score methodology is used to measure employee engagement. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. The scoring for this answer is based on a 0 to 10 scale. Those who respond with a score of 9 to 10 are called Promoters. Those who respond with a score of 0 to 6 are labeled Detractors. Responses of 7 and 8 are labeled Passives. The NPS is calculated by subtracting the percentage of employees who are Detractors from the percentage of employees who are Promoters.

Fluorescent lamp
A lamp which produces light with an electric current conducted through an inert gas producing ultraviolet light that is invisible to the human eye.

Free cash flow
Net cash provided by operating activities minus net capital expenditures. For Digital Solutions, Digital Products and Conventional Products, free cash flow excludes items not allocated to the operating segments, such as interest paid (or received) and income taxes paid.

Global Reporting Initiative (GRI)
The Global Reporting Initiative is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Gross debt
The sum of short-term debt and long-term debt.

Gross margin
Sales minus cost of sales.

Halogen lamp
A type of incandescent lamp with a capsule that holds a special halogen gas composition around the heated filament to increase the efficacy of the incandescence.

High-intensity discharge lamp (HID)
A type of conventional lamp that uses electricity arcs between two electrodes to create an intensely bright light where mercury, sodium, or metal halide gas act as the conductor.

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

Incandescent lamp
A conventional lamp that produces visible light by heating a tungsten filament inside a glass bulb usually filled with an inert gas.

Indirect costs
The sum of Selling, general and administrative and Research and development expenses.

International Standardization Organization (ISO)
The International Standardization Organization is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

LED
Light-emitting diode.

LED-based sales
Sales provided by products, systems and services based on LED lighting technologies.

LED drivers
Lighting electronics that convert input power into a current which remains constant despite fluctuations in voltage.

LED lamp
A solid-state semiconductor device that converts electrical energy directly into light.

LED luminaires
Light fixtures where LED modules are integrated into the luminaire as light source and cannot be separated from the luminaire by the user.

LED modules
Light generating units around which luminaires are built for the purpose of emitting distributed patterns of light.

Light-as-a-service contract
Contracts enabling an integrated solution for customers where customers pay for the provision of light to their premises, while the company plans and builds the lighting infrastructure and ensures its performance until the end of the contract.

Lighting services
Services offered to customers building on a lighting system and enabled by data.

Lighting systems
The combination of luminaires, controls and software. The automation and related controls of lighting within a room, building or outdoor facilities for end-users.

Luminaire
Electrical devices that produce, control and distribute light. Also called light fixtures. They consist of one or more light sources, lamps or sockets that connect the lamps to the electrical power (as well as drivers in some luminaires), and the mechanical components required to support or attach the housing.

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

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

Net leverage ratio (term loan facility agreement of 2020)
The ratio of consolidated reported net debt to consolidated reported EBITDA for the purpose of calculating the financial covenant for the term loan and revolving credit facility agreed in 2020 (if applicable). The financial covenant shall remain suspended so long as Signify has either a public or private investment grade credit rating.

Non-governmental organization (NGO)
A non-governmental organization is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

OEM
Original equipment manufacturer.

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 which have been approved by the company, and which generally involve the realignment of certain parts of the organization. Restructuring costs include costs for employee termination benefits for affected employees and other costs directly attributable to the restructuring, such as impairment of assets which will no longer be in use.

Return on capital employed
Income from operations adjusted for tax at the effective tax rate, divided by the year-on-year average capital employed.

SG&A expenses
Selling, general and administrative expenses.

Signify
Signify N.V. (the "Company") and its subsidiaries, within the meaning of Section 2:24b of the Dutch Civil Code.

Supplier sustainability performance
The supplier sustainability performance rate represents the percentage of risk suppliers with an audit score of at least 90 out of 100 points.

Sustainable innovation
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 one or more of the sustainable focal areas: Energy & solar, Circularity, Packaging, Substances, Weight & materials, Safety & security, Health & well-being or Food availability. Sustainable innovation spend is the total spending of all R&D projects contributing to sustainable innovation.

Switch
Wall-mounted devices designed to (i) change the electric connections among its terminals or (ii) engage with the pins of a plug and having terminals for the connection of cables or cords (i.e., socket contacts).

Total Recordable Case rate
Number of injuries and illnesses sustained at work that result in medical treatment, restricted work, lost work-days, or fatality, divided by 100 FTEs.

Weighted average statutory income tax rate
The aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the company result before tax.

Women in leadership
Percentage of women in relation to the total population in compensation grades H22 and above. It includes employees with or without a defined end date, international assignees and members of the Board of Management.

Working capital
The sum of Inventories, Trade and other receivables, Other current assets, Derivative financial assets minus the sum of Trade and other payables, Derivative financial liabilities and Other current liabilities (excluding dividend related payables).

Zero waste to landfill
It refers to manufacturing sites diverting their manufacturing waste to recycling or incineration, instead of to landfill. To determine waste to landfill in scope of our commitment we exclude the following categories: chemical waste, hazardous waste, one-time waste and regulated waste. To achieve “zero (manufacturing) waste to landfill”, the amount of non-hazardous manufacturing waste being disposed directly to landfill should be <1% of total waste.

20 Forward-looking statements and other information

Forward-looking statements and risks & uncertainties

This document contains forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Signify N.V. together with its subsidiaries, including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing Signify and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: fundamental shifts in the industry, the adoption of lighting systems and services, adverse economic and political developments, competition in the general lighting market, integration risks relating to acquisitions, successful implementation of business transformation programs, failure to drive operation excellence and ensure effective supply change management, pension liabilities and costs, exposure to international tax laws. Please see chapter 12, Risk factors and risk management, of this Annual Report for discussion of material risks, uncertainties and other important factors which may have a material adverse effect on the business, results of operations, financial condition and prospects of Signify. Such risks, uncertainties and other important factors should be read in conjunction with the information included in the Annual Report.

Additional risks currently not known to Signify or that Signify has not considered material as of the date of this document could also prove to be important and may have a material adverse effect on the business, results of operations, financial condition and prospects of Signify or could cause the forward-looking events discussed in this document. Signify undertakes no duty to and will not necessarily update any of the forward-looking statements in light of new information or future events, except to the extent required by applicable law.

Market and industry information

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

Non-IFRS financial measures

Certain parts of this document contain non-IFRS financial measures and ratios, such as comparable sales growth, adjusted gross margin, EBITA, Adjusted EBITA, and free cash flow, and other related ratios, which are not recognized measures of financial performance or liquidity under IFRS. The non-IFRS financial measures presented are measures used by management to monitor the underlying performance of the Signify business and operations and, accordingly, they have not been audited or reviewed. Not all companies calculate non-IFRS financial measures in the same manner or on a consistent basis and these measures and ratios may not be comparable to measures

used by other companies under the same or similar names. A reconciliation of these non-IFRS financial measures to the most directly comparable IFRS financial measures is contained in this document. For further information on non-IFRS financial measures, see chapter 18, Reconciliation of non-IFRS financial measures, of this Annual Report.

Fair value information

In presenting Signify's financial position, fair values are used for the measurement of various items in accordance with the applicable accounting standards. These fair values are based on market prices, where available, and are obtained from sources that are deemed to be reliable. Readers are cautioned that these values are subject to changes over time and are only valid on the balance sheet date. When quoted prices or observable market values do not exist, fair values are estimated using valuation models, which we believe are appropriate for their purpose. They require management to make significant assumptions with respect to future developments which are inherently uncertain and may therefore deviate from actual developments. Critical assumptions used are disclosed in the financial statements. In certain cases, independent valuations are obtained to support management's determination of fair values.

IFRS basis of presentation

The financial information included in this document is based on International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), as explained in significant accounting policies, unless otherwise indicated.

Statutory financial statements

Chapter 14, Consolidated financial statements and chapter 15, Signify N.V. financial statements, of this Annual Report, contain the statutory financial statements of Signify N.V.

Regulated information

This document contains regulated information within the meaning of the Dutch Financial Markets Supervision Act.

Signify N.V.
High Tech Campus 48
5656 AE Eindhoven
The Netherlands
E-mail: IR@signify.com
www.signify.com
Dutch Chamber of Commerce
registration no. 65220692
VAT NL8560.25.823.B.01