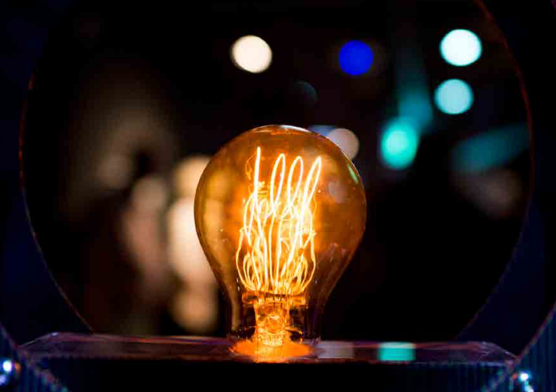
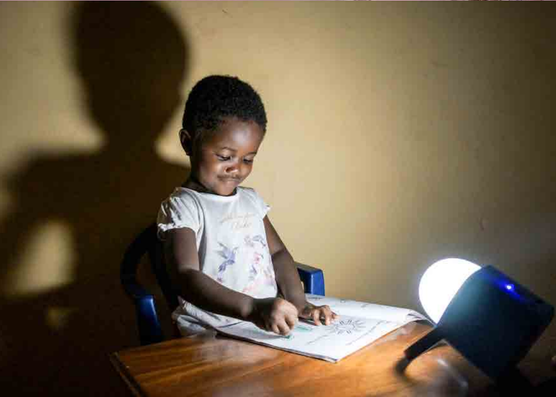
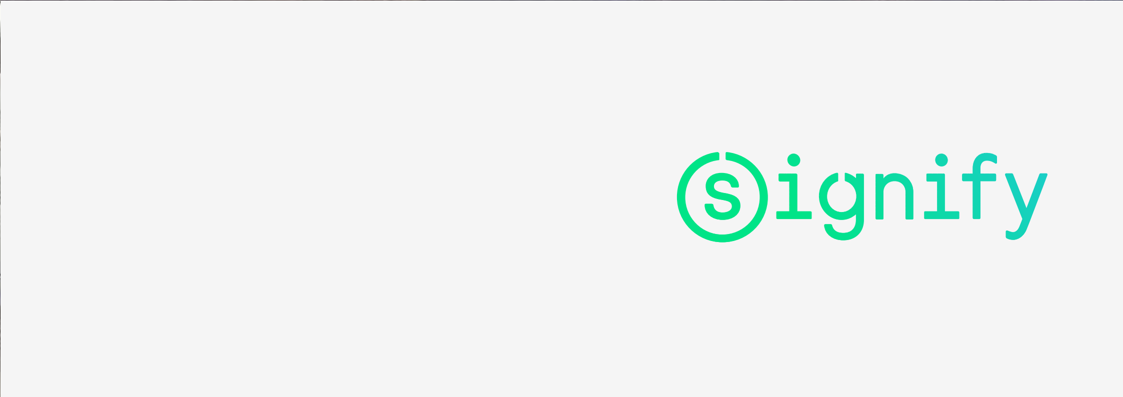


Annual Report 2018





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

Signify is the world leader in lighting. We provide our customers with high-quality, energy-efficient lighting products, systems and services. By turning light sources into data collection points, we can connect more devices, places and people through light, contributing to a safer, more productive and smarter world.

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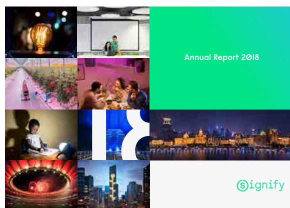


In 2018, Signify leveraged 127 years of leadership in lighting to create dynamic, innovative and human-centric projects. In homes, offices, shops, sports stadiums, cities, greenhouses and factories – as well as through the Signify Foundation – we're unlocking the extraordinary potential of light for brighter lives and a better world.

Forward-looking statements and risks & uncertainties

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

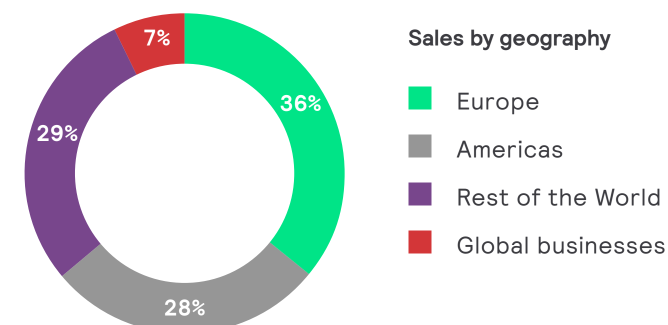
We are Signify

1 Performance highlights

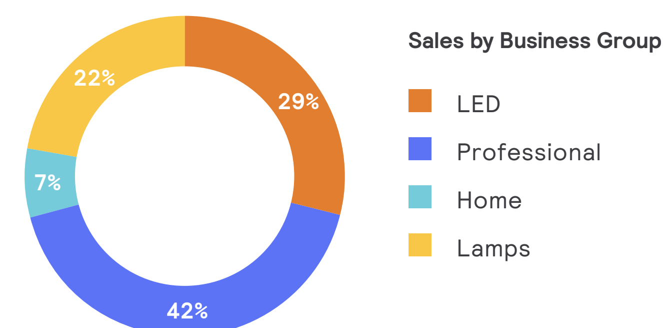
1.1 Financial performance

	2017	2018
Comparable sales growth	0.5%	(4.4%)
LED-based sales	65%	71%
Adjusted EBITA margin [1]	9.6%	10.1%
Net income	281	261
Free cash flow	403	306

[1] Prior year has been restated after lowering the threshold for other incidental items.



Business Groups	LED	Professional	Home	Lamps
Sales	1,812	2,635	467	1,428
Nominal sales growth	(4.7%)	(4.2%)	(8.0%)	(20.1%)
Comparable sales growth	0.4%	(0.4%)	(3.8%)	(16.2%)
EBITA margin	11.3%	7.9%	(9.2%)	18.9%
Adjusted EBITA margin	11.7%	9.5%	(8.1%)	21.1%



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.

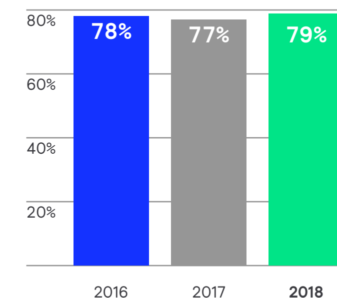
1.2 Sustainability performance

Environmental highlights	2017	2018
Sustainable revenues	77%	79%
Carbon footprint (net, kilotonnes)	284	146
Renewable electricity	80%	89%
Manufacturing waste (in kilotonnes)	44	41

Social highlights	2017	2018
Employees (full-time equivalent)	32,130	29,237
Employee Net Promoter Score	14	13
Female executives (% of total)	17%	17%
Supplier sustainability performance	95%	93%

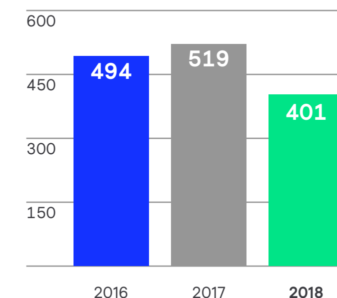
Sustainable revenues

100% of total revenues



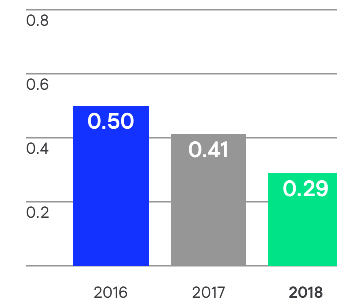
Operational carbon footprint (gross)

Kilotonnes CO_2 equivalent



Health & safety

Total recordable case rate



2 CEO message

2018 – A year of structural improvements in a challenging market

"I'm extremely proud of our employees for managing the many structural improvements we set in motion in 2018. We changed our name, further increased our leadership in LED innovation, sharpened our focus on systems and services for the Internet of Things (IoT) and continued making strides toward complete carbon neutrality, all while lowering our costs." – Eric Rondolat, Signify CEO.

Dear stakeholder,
Looking back on 2018, I'm very pleased with the commitment to creating value for our customers that I've seen across our businesses, and with the progress of our simplification and cost reduction actions. They keep our transformation journey on the right track.

On May 16 2018 we changed our name from Philips Lighting to Signify. This new name is a clear expression of our strategic vision and purpose.

On top of the shares we repurchased from Royal Philips (during its sell down) – it held 16.5% at year-end – we also returned EUR 220 million to our shareholders through our share repurchase program.

To help us meet the needs of the fast-growing urban lighting market in China, we acquired LiteMagic Technologies, whose technology was used for the largest architectural lighting project in our history, lighting the waterfront, historical and business districts in Shanghai.

In 2018 we increased the focus on our growing profit engines (namely our LED, Professional and Home Business Groups) as they represent the foundations we're strategically building and investing in to move to LED and connected lighting. In doing so, we have decided to develop new and promising growth platforms around connected systems, IoT platform services, horticulture, solar, and LiFi.

Our Adjusted EBITA margin has improved, free cash flow is strong, and exciting developments in our growth platforms show that we continue moving in the right direction. All of this occurred in the most challenging market conditions we've seen in some years.

Strategic focus
We stayed focused on executing against our strategic priorities, continuously shaping the transformation of the industry.

- While the decline in conventional lamps is ongoing, we continue to increase our market share and profitability, benefiting from our 'last man standing' strategy. The halogen lamps ban in Europe particularly benefitted our third-quarter sales

“Our cost plan yielded positive results, contributing to a continuously improving bottom line and solid free cash flow”

- Comparable LED-based sales increased by 2.5% and now represent 71% of our total sales
- Professional connected lighting under our Interact brand, together with Philips Hue’s market leadership in connected home lighting, contributed to us having installed a total of 44 million connected light points globally
- The launch of the Interact Pro system for SMEs, the popularity of the T-bulb in India and helping our customers expand Hue to their outdoor areas demonstrate our responsiveness to customer needs
- The transformation within HR, Finance and IT is succeeding, as our ongoing simplification continues to generate cost improvements

Our financial performance
Home had a weak start to the year due to high inventory levels in US retail at the end of 2017, though the business made significant improvements in the second half of the year, reflecting more normalized activity and the ongoing adaptation of our cost base. Fierce competition in LED from low-cost manufacturers and competitors is ongoing. And challenging market conditions in several geographies resulted in us missing our sales guidance for the year.

Nonetheless, our cost plan yielded positive results, contributing to a continuously improving bottom line and solid free cash flow.

Our commitment to innovation
In 2018, we invested 4.5% of our sales in R&D, the cornerstone of our business. We’re exploring new approaches to systems and services and applications of lighting for the IoT as well as expanding growth areas like horticulture and solar. For example, we more than doubled the size of the largest horticulture LED project in the world. Russian grower Agro-Invest now has the equivalent of 100 soccer pitches using our lighting to improve the growth, quality and yield of its tomatoes. Looking to the future, we launched LiFi, which offers a fast Internet connection through lighting and we’re piloting this technology in all corners of the world.

Our commitment to sustainability
For the second year in a row, we’ve been recognized as the Industry Leader in the Electrical Components and Equipment category of the Dow Jones Sustainability Index. This highlights once again how sustainability is at the center of what we do. In addition, thanks to the efforts and collaborations of our teams around the world, our operations achieved carbon neutrality in Canada and the US, joining seven other markets and keeping us on track to be entirely carbon neutral in 2020.

Our commitment to our customers
Customer first is a core value of our company. Last year we initiated a major multi-year journey, ‘Road to Excellence’, to achieve unequalled customer satisfaction. As part of this, we’re improving our capabilities to deliver on our company performance. We’ll accomplish this by continuously improving our processes and building on our quality culture. We’ll continue to measure the satisfaction of our customers by Net Promoter Score and have implemented the European Foundation for Quality Management excellence model to help us strengthen our organizational maturity.

Our commitment to people development
In 2018 we launched Learning @ Signify as part of our commitment to foster a learning culture. As a consequence, and in line with our philosophy of promoting from within, 75% of executive-level vacancies were filled by internal talents. Our Employee Net Promoter Score has increased, moving from 14 in Q4 2017 to 15 in Q4 2018, with participation levels of 78% throughout the year. We’re implementing the recommendations from our quarterly employee survey to help make Signify one of the best places in the world to work.

Our thanks
On behalf of our Board of Management and our leadership team I extend my heartfelt thanks to our employees, who daily show their dedication to innovative, high-quality and sustainable offers, serving 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, which provides us ample motivation every day. And finally, I thank our shareholders for their confidence in us and in our strategy.

As we move towards completion of our transformation, Signify is uniquely positioned to lead the industry in the next phase of lighting for the future.

Eric Rondolat
CEO Signify

3 Creating value

3.1 Our strategic focus

Signify is the world market leader with recognized expertise in the development, manufacture and sale of innovative, energy-efficient lighting systems and services. We have pioneered many key breakthroughs in lighting over the past 127 years and have been a driving force behind several leading technological innovations.

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

Strategic priorities	Proof points 2018
Innovate in LED products commercially and technologically to outgrow the market – We strive for continued innovation in LED lighting products and tailored marketing approaches to outgrow the market.	LED lighting share increased from 65% to 71% of total sales
Lead the shift to systems, building the largest connected installed base – We believe that connected lighting is becoming increasingly important in the general lighting market. We play a leading role in the industry shift to lighting systems in both the professional and consumer markets.	Installed light points using our connected lighting products increased by 47% to 44 million connected light points
Capture adjacent value through new services business models – We seek to realize additional revenues from our installed base by offering new, value-added services. In doing so, we make people's lives safer, more productive, and more comfortable; businesses and cities more efficient and liveable; and the world more sustainable.	Released our Interact IoT platform, a launchpad for data-enabled services
Be our customers' best business partner locally, leveraging our global scale – We aim to capitalize on our long-standing local customer relations and global distribution network. Our global reach and client proximity allow us to deliver a product portfolio that addresses local market needs with both high volume products and differentiating propositions.	Our average DRM (Delivery Reliability Metric) improved by 240 basis points
Drive our operational excellence improvement journey – We aim to leverage operational excellence capabilities across the organization by implementing programs that are focused on minimizing waste, reducing defects and increasing the efficiency of our entire value chain while, at the same time, reducing our fixed costs.	Adjusted EBITA margin improved by 50 basis points[1] to 10.1% Indirect costs reduced by EUR 224 million (currency comparable basis)
Optimize cash from conventional products to fund our growth – While the overall conventional market continues to decline, we expect to decrease less than the market, capture market share and optimize our free cash flow. Our manufacturing footprint rationalization and product portfolio simplification brings additional efficiency gains and cost reductions.	Continued strong free cash flow of Lamps at 22% of sales

[1] Adjusted EBITA margin difference is calculated between the restated FY 2017 (9.6%) and FY 2018 results. Prior year has been restated after lowering the threshold for other incidental items.

The lighting company for the Internet of Things

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

This is part of our broader commitment to deliver Light Beyond Illumination, turning light sources into points of data to connect more devices, places, and people through light. In doing so, we make people safer, more productive, and comfortable; businesses and cities more energy efficient and livable; and the world more sustainable.

In 2018 we launched Light Fidelity (LiFi): high-speed broadband internet connectivity through light waves. As a highly stable and energy-efficient alternative to WiFi, it allows people to connect and communicate – while maintaining a high quality of light. Innovations like this are possible because we bring over a century of lighting industry knowledge to visionary R&D.

Dynamic architectural lighting on Shanghai's iconic waterfront

Case study Shanghai Bund, Shanghai, China

Connected architectural lighting utilizes Signify's LiteMagic technology and Philips Color Kinetics luminaires to illuminate Shanghai's waterfront and historical and financial districts.

> "The lighting for the Bund is extremely important and it opens a number of future possibilities. When you can control light points individually, you're not only able to create scenes, you can open the platform up for interactive possibilities as well."
>
> Uno Lai, founder Unolai Lighting Design

Customer challenge

Shanghai, China's second largest city, is a major financial and transport hub with the world's busiest container port. Officials from Shanghai Municipality wanted to regenerate the financial and tourist districts. Their top priorities were quality of life for residents of the riverside community and a boost for tourism in this historic area.

Solution

Signify has installed more than 50,000 connected light points on buildings along the waterfront as well as the Yangpu, Nanpu and Xupu bridges. In total, over 27,000 Philips LED luminaires have been used to light the tower, including its red top – as well as the red tops of the other skyscraper buildings in Pudong. The switch-on of the massive display was witnessed by President Xi Jinping and foreign heads of state attending the opening of the China International Import Expo (CIIE), held for the first time in Shanghai. The project, which connects over 40 buildings, three bridges, and Shanghai's waterfront, was the largest single architectural lighting project in Signify's 127-year history.

Interact Landmark

Interact Landmark provides dynamic lighting for significant architectural monuments. Using Interact Landmark, each luminaire can be remotely monitored and controlled individually or in groups to create unique, appealing night scenes on weekdays, weekends or holidays. Furthermore, the system can detect and manage faults and improve asset management, thereby reducing costs.

Connected lighting as competitive advantage for design SME

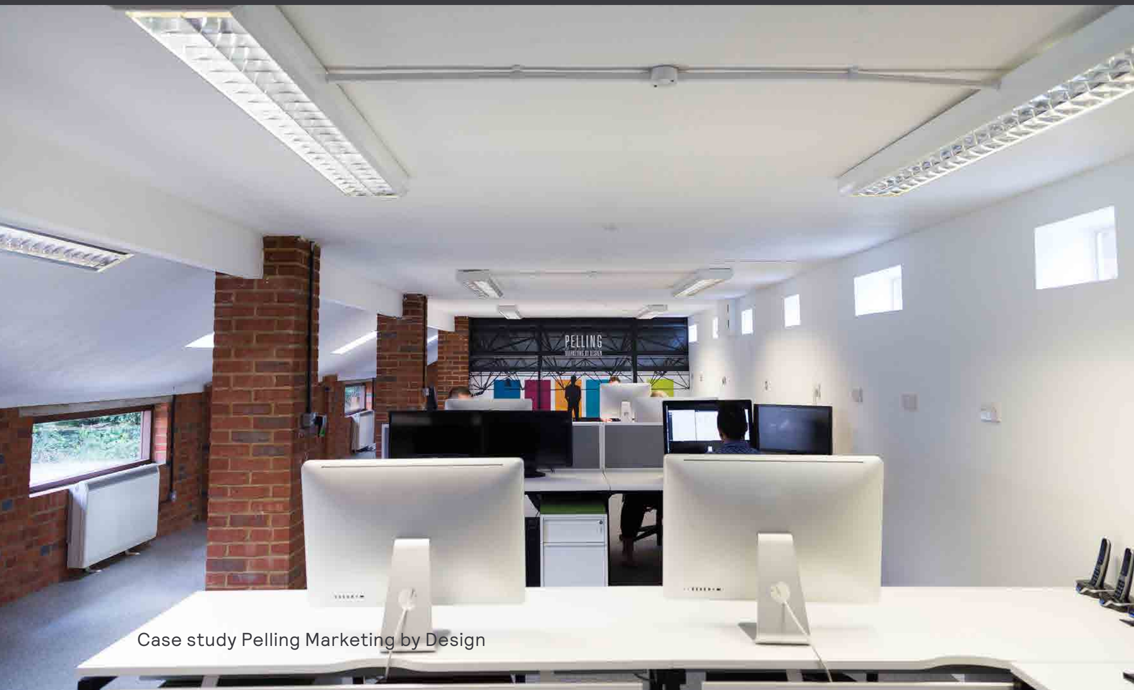
Interact Pro improves the working environment and reduces energy usage by 79% in Pelling Marketing by Design's 20-person office.

Customer challenge
For small businesses, an improved margin can have a huge impact. Reducing energy expenses from lighting is a simple and effective way to achieve this goal.
James Gubbins, owner of Pelling Marketing by Design, was looking to upgrade his office to LED lighting to reduce energy consumption and streamline facility management. The existing fluorescents often flickered and produced different light temperatures – not ideal for a company that presents itself as a modern forward-thinking design business. Complicating matters, the Pelling office is in a listed building and installing signal cables was out of the question.

Solution
Interact Pro allows business owners to enjoy benefits of lighting control and automation. This reduces energy use helping to meet workplace sustainability targets and save money. At the office of Pelling Marketing, the switch to Philips MasterConnect LED tubes, in combination with Interact Pro, delivered a lighting energy saving of 79%. Interact Pro also enables employees to control workspace light settings via a smartphone app. The employees at Pelling can now adjust the light levels to suit their task, location and eyesight, improving the overall working environment.

Interact Pro
Interact Pro is an intuitive dashboard and app that delivers the power of IoT connected lighting to small and medium enterprises with up to 200 light points. It works with Philips LED lamps, luminaires, sensors and switches. The intuitive Interact Pro app allows for quick commissioning, and there's no need for costly signal cables. This enables installers to work faster. The Interact Pro dashboard also enables installers to optimize their own operations by giving them access to real-time status reports and alerts to quickly identify and respond to issues for more proactive customer service. By using the data Interact Pro provides, installers can provide better service and even advise SMEs on a system's health and efficiency.

> **"Our team are happy they can adjust the light levels to suit their needs and it's great to be able to show customers how we've been working to reduce our energy use too."**
>
> **James Gubbins, owner of Pelling Marketing by Design**



Case study Pelling Marketing by Design

3.2 Brighter Lives, Better World

Sustainability is at the heart of our purpose: to unlock the extraordinary potential of light for brighter lives and a better world. We do this by delivering light which is energy efficient, saves resources, and improves lives.

In 2016, we launched our 'Brighter Lives, Better World' program, setting ambitious targets for sustainable revenues and sustainable operations leading up to 2020.

Brighter lives are created through our human-centric lighting, which helps people to see, feel and function better. Through the Signify Foundation, we provide people with access to light in remote and off-grid locations, where it enhances the social and commercial activity of communities currently still suffering from light poverty, which currently is around 1.1 billion people. In addition, we actively work to create a safe and a healthy workplace for our employees.

We create a better world through energy efficient and connected lighting, which reduces energy consumption by up to 80% compared to conventional lighting. With our 'Circular Lighting', we've adapted the way products are designed and taken to market, providing economic benefits to customers and environmental benefits to society. By transitioning to a circular economy, we're further increasing our net positive contribution to a better world.

The 17 UN Sustainable Development Goals (SDGs) lie at the heart of the 2030 Agenda for Sustainable Development adopted by all UN Members States. At Signify, we focus on the four SDGs where we can make the biggest impact through our Brighter Lives, Better World sustainability program: SDGs 7, 11, 12 and 13.

To help us progress toward our 2020 targets and our commitments to the SDGs, we're partnering with organizations, including GOGLA, South Pole, RE100, the Carbon Disclosure Project, The Climate Group, the World Green Building Council, the Responsible Business Alliance and the World Economic Forum.

We made good progress on our Brighter Lives, Better World program targets in 2018

Targets 2020	Proof points 2018	SDGs contribution
80% sustainable revenues	79% of revenues came from energy efficient products, services or systems	**7: Affordable and clean energy** **11: Sustainable cities and communities** **12: Responsible consumption and production** **13: Climate action**
2 billion LED lamps & luminaires delivered	1,749 million delivered, effectively avoiding 43,701 kilotonnes of CO_2 being emitted	**13: Climate action**
Carbon neutrality	Net carbon footprint of 146 kilotonnes of CO_2, a year-on-year reduction of 49%	**7: Affordable and clean energy** **11: Sustainable cities and communities** **13: Climate action**
Zero waste to landfill	A reduction of 17% waste going to landfill, 82% of all manufacturing waste recycled	**12: Responsible consumption and production**
Safe & healthy workplace: TRC rate of <0.35	0.29 TRC rate, a reduction of 29% compared to 2017, 54 sites with more than 500 days injury free	**12: Responsible consumption and production**
Sustainable supply chain: Minimum performance rate of 90%	Supplier sustainability performance rate of 93%, 281 suppliers engaged on carbon reduction through the CDP Supply Chain program	**12: Responsible consumption and production** **13: Climate action**

Case study Hamdan University, Dubai

Immersive and energy-efficient higher education

The Hamdan Bin Mohammed Smart University (HMBSU) in Dubai uses lighting technology to make the learning environment more engaging, adaptive and immersive. It combines web-based and classroom learning to lead modern university education.

Customer challenge

HBMSU aims to provide the smartest learning ecosystem among all education institutions world-wide. With technology forming the basis for instructional delivery, lighting can be the catalyst for creating a smart and adaptive learning environment. The university is also supporting the government's vision for Dubai to be the smartest city in the world.

> "Being the first university in the world to have a smart lighting system will better equip us to deliver highly personalized learning experiences."
>
> Dr. Mansoor Al Awar, Chancellor, Hamdan Bin Mohammed Smart University

Solution

The university was equipped with state-of-the-art connected LED lighting with embedded sensors. Notably, the university doesn't have any light switches. All lighting is controlled via a smartphone app, by motion sensors, or through a central management system. The lighting system and Interact Office indoor navigation are integrated with the university's app to help students find available rooms or lead them to their classes. The lighting also automatically adjusts to outdoor light levels. The adaptive technology makes the learning environment more engaging and immersive. Insights gained from the Interact Office software system increases building efficiency and optimizes space; the new lighting system creates 15% overall savings on HBMSU's energy bill.

Interact Office

The Interact Office software system is integrated with the university's building management system so that all building systems work together seamlessly. Sensors detect movement and lights switch on as students enter the room. Heating, ventilation and air conditioning (HVAC) are activated according to the class schedule, ensuring student and staff comfort and energy conservation. Once students leave the room, the HVAC and lighting are switched off.

Astronomy-friendly lighting on the Canary Islands

Stargazers on the Canary Islands will get an even better view of the night sky thanks to new street lighting from Signify.

Customer challenge
Light pollution is an issue for astronomers around the world. In fact, the Milky Way is hidden from 60% of Europeans and nearly 80% of North Americans. One place that has so far maintained pristine conditions to view the night sky is the Canary Islands. The islands provide such exceptional stargazing that they're home to three Starlight Reserves and the Spanish government has put several lighting regulations in place to protect the quality of the sky. Puerto de la Cruz, on the north coast of Tenerife, was looking to balance the preservation of astronomy conditions with the provision of compliant, adjustable, and high-quality street lighting.

> "For astronomers and those who enjoy starlit nights, the quality of our skies is second to none. We want to preserve this precious resource and at the same time make our streets even safer for citizens and tourists."
>
> Lope Afonso, Mayor of Puerto de la Cruz

Solution
Signify, working with experts from the Canary Islands Institute of Astrophysics (IAC), developed an optical solution that is fully compliant with government-defined lighting regulations and certified by IAC. Light spillage is minimized, while the new optics also filter the blue part of the light spectrum, which could interfere with the activities of the observatories. In total, Signify installed over 6,000 light points, which are also wirelessly connected to the Interact City lighting management software, so they can be dimmed and controlled remotely.

Additionally, the new lighting fixtures feature standard SR (System Ready) connectors, making them compatible with existing and new sensor applications. This means the city can also easily opt for new smart technologies whenever they become available.

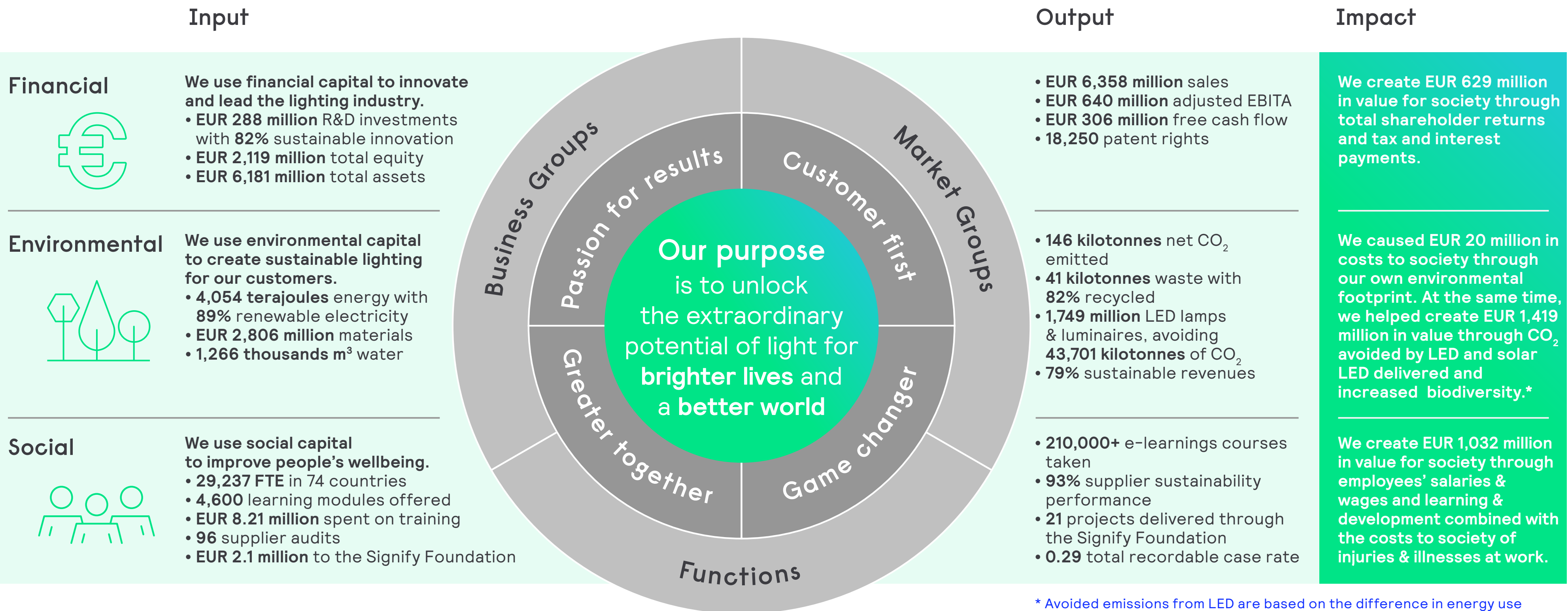
Interact City
Interact City connected LED lighting system and management software provides customers with a robust infrastructure to enhance city services, improve public safety, beautify public spaces, engage with citizens and encourage civic pride. It also reduces energy costs and increases efficiency.

Case study Puerto de la Cruz, Canary Islands

3.3 Value Creation Model

The value created by Signify goes beyond financial performance alone. Our approach is to optimize the use of financial, environmental and social resources. Through our activities and our way of doing business, we impact stakeholders and society at large. By expressing these impacts in monetary terms, stakeholders can consider the indirect economic, social, and environmental effects of our business more effectively.

> "Our aim is to create sustainable value for our stakeholders and society at large."



* Avoided emissions from LED are based on the difference in energy use between conventional and LED light technologies. Energy use of our LED lamps & luminaires results in 11,099 kilotonnes CO_2, equivalent to EUR 1,110 million in costs to society. The detail of our Methodology for calculating societal impact can be found on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Enhancing guest experience at Swissôtel The Stamford

Swissôtel in Singapore uses smart room control technology to provide an outstanding guest experience while maximizing efficiencies.

Customer challenge

The 1,261-room five-star Swissôtel The Stamford in Singapore, part of the Accor group, is one of the tallest in Southeast Asia at 226 meters high. With a firm commitment to providing an enhanced guest experience and meeting sustainability goals, Swissôtel was looking for a system that would help improve staff efficiency and seamlessly integrate with other automated hospitality systems such as heating, ventilation and air conditioning (HVAC) and its hotel management system, Oracle Opera. Interact Hospitality, a system to streamline operations and improve guest service, was the answer.

Solution

The superior guest experience starts upon arrival at the front desk, according to Nicolas Mak, Director of Facilities at Swissôtel The Stamford. When someone checks in, the system sets the air conditioning to a temperature preferred by most guests.

> **"This new system helps us to improve levels of service even further and gives our managers a 360° overview of our operations across the entire hotel."**
>
> **Katya Herting, Manager, Swissôtel The Stamford**

Sensors in the room know to turn lights on when guests enter and off when they leave. These sensors also trigger low-level floor lighting at night, minimizing disruption when guests get up. The automated communication between systems maximizes energy efficiency and improves the guest experience, all while helping Swissôtel meet its sustainability goals.

Interact Hospitality

The Interact Hospitality dashboard allows staff to see real-time guest requests, ensuring quick response and turnaround times, helping to improve productivity and service levels. With a single touch, guests can activate a 'pick up my laundry' request from the room, which feeds into a central dashboard to notify staff that the room needs to be visited. The system also reduces unnecessary work for staff while minimizing guest disruption.

Case study Swissôtel The Stamford, Singapore

Philips Hue Outdoor

Case study Philips Hue Outdoor

Extending the magic of Philips Hue from the home to the backyard.

> **"By introducing our Philips Hue Outdoor range we're giving our customers more ways to bring their front and back yards to life with light."**
>
> **Jasper Vervoort, Business Leader, Home Systems and Luminaires at Signify**

Challenge
Philips Hue is the world's leading smart lighting system for the home. It's an ecosystem of bulbs, strips, spots, lamps and controls with more than 750 third-party apps. It's used to wake up more naturally, to get energized (or relaxed) and be synced with music, games and movies. Hue is a vital part of a connected and intelligent home. However, the home isn't contained just within the four walls of a building; while lighting is an important aspect of a home's interior design, it is often overlooked when it comes to the exterior.

Solution
To realize the vision of a completely connected and intelligent home, the whole footprint needs to be considered – the driveway, the front door and the backyard. In 2018 Signify launched the Philips Hue Outdoor range of lighting for gardens and patios, including bollards, spots, lightstrips and more. With access to 16 million colors and full flexibility to position the lights wherever needed, Hue Outdoor is part of a single system that lights your home smarter – inside and out.

Philips Hue
The Philips Hue Outdoor range works seamlessly with the rest of the products in the Philips Hue smart lighting family. By adding the outdoor lighting products to the Philips Hue bridge, the interior and exteriors of a home are fully customizable. With Philips Hue, you can control your lights remotely, schedule lights to turn on or off at certain moments of the day, as well as automatically trigger them to turn on when arriving home.

4 Corporate performance

Key figures in mEUR unless stated otherwise

	2017	2018
Sales	6,965	6,358
Comparable sales growth [1]	0.5%	(4.4%)
Gross margin [2]	2,704	2,382
as a % of sales [2]	38.8%	37.5%
Income from operations	441	410
Net financial income/expense	(43)	(41)
Income tax expense	(117)	(106)
Net income	281	261
Adjusted gross margin [1] [2]	2,755	2,433
Adjusted indirect costs [1] [2]	(2,194)	(1,896)
Adjusted EBITA [1] [3]	669	640
as a % of sales [3]	9.6%	10.1%
Restructuring, acquisition and incidental items [1] [3]	(98)	(136)
EBITA [1]	571	504
Earnings per share in EUR	2.04	1.95
Dividend per share in EUR [4]	1.25	1.30
Shareholders' equity	2,242	2,041
Net debt [1]	367	589
Working capital [1] [5]	597	536
Net cash provided by operating activities	435	381
Free cash flow [1]	403	306

[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] Prior year has been restated after changes in business portfolio and allocation methods.
[3] Prior year has been restated after lowering the threshold for other incidental items.
[4] 2018 Dividend subject to approval by the 2019 Annual General Meeting of Shareholders.
[5] Prior year has been restated to exclude income tax payable and receivable.

4.1 Financial performance

4.1.1 Company performance

In line with its outlook, Signify improved its Adjusted EBITA margin by 50 basis points to 10.1%, mainly driven by rigorous cost reduction initiatives which resulted in indirect cost savings of EUR 298 million. Free cash flow was solid at EUR 306 million.

Signify reported sales of EUR 6,358 million, a reduction of 8.7% on a nominal basis. Adjusted for -4.0% currency effects and -0.3% consolidation impact, comparable sales declined by 4.4%. The company was impacted by more challenging market conditions in several geographies and an unanticipated temporary decline in Home. Comparable LED-based sales grew by 2.5% and now represent 71% of total sales compared with 65% in 2017.

The company reported Adjusted EBITA of EUR 640 million. This resulted in a 50 basis points improvement of the Adjusted EBITA margin to 10.1%. Adjusted indirect costs decreased by EUR 298 million, or 170 basis points as a percentage of sales, as a result of the company's simplification and cost reduction initiatives in 2018. These initiatives are centered around simplification of the organization and processes, optimization of the manufacturing footprint as well as cost savings in procurement and the indirect cost base.

Free cash flow amounted to EUR 306 million, or 4.8% of sales, compared with EUR 403 million last year. The delta largely reflects EUR 40 million higher restructuring cash-out in 2018 and EUR 56 million real estate proceeds in 2017, which were partly offset by a EUR 16 million lower contribution to the US pension fund in 2018.

Signify's gross margin amounted to EUR 2,382 million in 2018 compared with EUR 2,704 million in 2017. The adjusted gross margin as percentage of sales reduced by 130 basis points to 38.3% and was negatively impacted by a currency effect of 40 basis points.

Income from operations decreased from EUR 441 million in 2017 to EUR 410 million in 2018. The delta can mainly be explained by higher restructuring costs in 2018 and real estate gains in 2017. Restructuring costs were EUR 118 million in 2018, while incidental items included a charge of EUR 21 million for the company name change. In 2017, the company benefited from real estate gains of EUR 52 million.

Adjusted indirect costs decreased by EUR 298 million to EUR 1,896 million, an improvement of 170 basis points as a percentage of sales. R&D expenses amounted to EUR 312 million compared with EUR 362 million in 2017. This included EUR 25 million of restructuring charges compared with EUR 20 million in 2017, resulting in adjusted R&D expenses of EUR 288 million in 2018. As a percentage of sales, adjusted R&D expenses decreased from 4.9% in 2017 to 4.5% in 2018.

EBITA amounted to EUR 504 million. Adjusted EBITA was EUR 640 million, a 50 basis points increase in the Adjusted EBITA margin to 10.1%.

Net income amounted to EUR 261 million in 2018 compared with EUR 281 million in 2017. In 2017, Signify benefited from EUR 52 million of real estate gains.

Net cash provided by operating activities decreased from EUR 435 million to EUR 381 million, due to higher restructuring payments, partly offset by improved working capital. Free cash flow decreased from EUR 403 million in 2017 to EUR 306 million in 2018 mainly due to higher restructuring payments of EUR 139 million (2017: EUR 99 million) and EUR 56 million of real estate proceeds in 2017.

Shareholders' equity reduced to EUR 2,041 million at year-end, primarily due to share repurchases and dividend distribution, partly offset by net income and currency effects. In 2018, 13.2 million of shares were repurchased for a total consideration of EUR 324 million.

Net debt amounted to EUR 589 million, an increase of EUR 222 million compared with year-end 2017, driven by a reduction in cash which was partly offset by a reduction in gross debt. Working capital reduced by EUR 61 million to EUR 536 million, as a result of lower inventories and accounts receivables. As a percentage of sales, working capital improved by 20 basis points to 8.4% of sales, driven by lower inventories and receivables.

As of December 31, 2018, Signify had a net pension liability of EUR 474 million. During 2018, Signify made a contribution of EUR 26 million to the pension fund in the United States. At December 31, 2017, Signify had a net pension liability of EUR 496 million.

Signify employed 29,237 full-time equivalents (FTEs) at year-end 2018, compared with 32,130 at year-end 2017.

4.1.2 Growing profit engines

The growing profit engines, LED, Professional and Home, represent the foundations Signify is building on and investing in, in line with the company's strategy to move to LED and connectivity, unleashing new growth platforms. In 2018, these include connected systems, IoT platform services, horticulture, solar, and LiFi. Comparable sales growth of the three businesses combined was -0.4%, on the back of a high comparison base in 2017 and an unanticipated temporary decline in Home, while the Adjusted EBITA margin improved by 30 basis points to 8.6%. The free cash flow of the growing profit engines LED, Professional and Home combined, increased by EUR 17 million to EUR 370 million in 2018, despite a substantial negative contribution from Home.

Growing profit engines in mEUR, except percentages

	CSG [1) 2)]		Adj. EBITA margin		Free cash flow [2) 3)]	
	2017	2018	2017	2018	2017	2018
LED	12.8%	0.4%	9.9%	11.7%		
Professional	4.1%	(0.4%)	8.3%	9.5%		
Home	41.1%	(3.8%)	2.3%	(8.1%)		
Growing profit engines	**10.1%**	**(0.4%)**	**8.3%**	**8.6%**	**353**	**370**

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

4.1.3 Performance by Business Group

Performance LED

About LED

LED sells a wide variety of LED lamps, namely spots, bulbs and tubes, to the professional and consumer channels and OEMs.
In addition, the Business Group sells LED electronic components, consisting of LED drivers and LED modules, to luminaire OEMs for professional luminaire applications in the retail, office and outdoor segments. Based on internal research, the company believes that the Business Group held the number one position in sales in the global LED lamps and electronics market in 2018.

Key figures LED
in mEUR unless otherwise stated

	2017	2018
Sales [1]	1,902	1,812
Nominal sales growth [1]	11.3%	(4.7%)
Comparable sales growth [1] [2]	12.8%	0.4%
Income from operations (or EBIT) [1]	183	200
EBITA [1] [2]	187	204
Adjusted EBITA [1] [2]	188	212
as a % of sales [1]	9.9%	11.7%
Number of employees (in FTEs)	5,912	5,979

[1] Prior year has been restated after changes in business portfolio and allocation methods.
[2] For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.

Strategic priorities

LED aims to further strengthen its leadership position in LED lamps and LED electronics through ongoing new product introductions and meaningful product differentiation. On the consumer LED lamps side, this includes broadening the multi-tier approach through private label business, and further growing in developing markets.
On the professional LED lamps side, the Business Group focuses on continuing to lead in product innovation, expanding business-to-business trade, further growing in developing markets and increasing focus on locally relevant products. In the LED electronics business, the aim is to generate more revenues from global OEMs by increasing the number of OEM customers and growing the share of wallet with existing OEM customers.

2018 Business highlights

- **Interact Ready Master Connect LEDtube:** this innovation enables wireless integration with a variety of control devices such as sensors and switches. It works seamlessly with Interact Pro.
- **New CeilingSecure LED downlighter in India:** the modular design features a replaceable LED module that can be easily installed without any damage to the false ceiling.
- **T-Bulb launch in India:** special design for customers in India who prefer a linear form factor. The T-bulb allows for better light spread and a decorative look.
- **Launch of controller for sensor-ready outdoor luminaires:** adds connectivity and sensing to outdoor luminaires. It allows customers to remotely install an on/off switching and dimming scheme.
- **Private label wins:** LED's private label business showed a solid performance with 24 tenders won in 2018. There is an ongoing focus on cost optimization to remain competitive.

2018 Financial performance

Sales were EUR 1,812 million, reflecting a nominal sales decline of 4.7% and comparable sales growth of 0.4%.
LED electronics continued to show an improving top-line trend. While volumes in LED lamps continued to grow, the business faced more challenging market conditions in some geographies, most notably China, and continued price erosion although at a slower pace.

Income from operations increased to EUR 200 million compared with EUR 183 million in 2017, driven by ongoing procurement savings and solid progress in indirect cost savings. Adjusted EBITA amounted to EUR 212 million. This resulted in an improvement of the Adjusted EBITA margin by 180 basis points to 11.7%.

Market developments

There is a market trend of both professional and consumers switching from buying (LED) lamps and luminaires to integrated LED luminaires, as anticipated in the company's strategy. The company expects this integrated LED functional luminaires market to continue its solid growth path.
The company's ambition is to drive market share gains and leadership in this segment.
Signify continues to expect that the LED lamps market will peak in 2020 in terms of volumes. The LED electronics market will continue to grow as all LED lighting products require a driver so the market for drivers will increase with the transition to LED lighting. Furthermore, modules are also used in LED luminaires and, as a result, this segment is expected to grow on the back of the LED luminaires market growth.

2019 and beyond

In 2019, LED will continue to focus on innovation and product differentiation.
On the LED lamps side, this also includes unlocking the full potential of private label.
The LED electronics market should continue to grow on the back of the continued transition to LED lighting and LED luminaires market growth. At the same time, LED will continue to reduce its indirect cost base, which should enable the Business Group to keep the Adjusted EBITA margin in 2019 in the target range of 10% to 12%.

Performance Professional

About Professional

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

Key figures Professional
in mEUR unless otherwise stated

	2017	2018
Sales [1]	2,750	2,635
Nominal sales growth [1]	2.3%	(4.2%)
Comparable sales growth [1] [2]	4.1%	(0.4%)
Income from operations (or EBIT) [1]	67	121
EBITA [1] [2]	186	208
Adjusted EBITA [1] [2]	229	251
as a % of sales [1]	8.3%	9.5%
Number of employees (in FTEs)	12,131	11,275

1) Prior year has been restated after changes in business portfolio and allocation methods.
2) For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.

Strategic priorities

Professional focuses on strengthening its global lighting leadership position by accelerating the rollout of its Internet of Things platform, Interact, to customers in all market segments. With a clear focus on innovation, Professional aims to be first-to-market with breakthrough applications and services that build on the market penetration of its connected professional lighting offering. Systems & Services accounted for 23% of sales in 2018.

2018 Business highlights

- **Launch of Interact Pro:** the intuitive dashboard and app bring IoT connected lighting to small and medium-sized enterprises by leveraging our Hue architecture.
- **Illuminated bridges for world's longest public art commission in London:** Signify will illuminate up to 15 of London's iconic bridges by 2022. The company won the contract to supply its Interact Landmark system and Philips Color Kinetics LED luminaires to light up the bridges with dynamic, artistic lighting effects via its centrally managed software.
- **Interact Hospitality installed at Swissôtel The Stamford in Singapore:** enables guests to personalize lighting, temperature and make room service requests. At the same time, it allows managers to reduce electricity bills while ensuring rooms match guest preferences.
- **Expanded the world's largest horticulture LED project:** Philips GreenPower LED toplighting and Philips GreenPower LED interlighting improve crop growth, quality and yields.
- **Acquisition of LiteMagic:** a small-size acquisition in China which is strengthening Signify's position in the attractive Chinese façade lighting market.

2018 Financial performance

Sales decreased 4.2% on a nominal basis to EUR 2,635 million. This represents a decrease of 0.4% on a comparable basis. During the year, Professional was impacted by deteriorating market conditions in various regions, most notably in Europe and China.

Professional reported income from operations of EUR 121 million in 2018. Adjusted EBITA amounted to EUR 251 million. The Adjusted EBITA margin improved by 120 basis points to 9.5%, mainly driven by indirect cost reductions. Restructuring charges amounted to EUR 34 million, mainly related to simplification of business structures, reduction of indirect costs and industrial footprint rationalization.

Market developments

One of the contributing factors to the increased use of LED technologies is the expanding offering of connected systems which enable users to program and control lights through connectivity with sensors and networks. This year, Signify introduced its IoT platform called Interact. The Interact platform is designed to handle data collected from the growing number of connected light points, sensors devices and systems. The highly secure, scalable, cloud-based platform uses sophisticated and modern data management and data processing capabilities, creating data-enabled services for customers that will deliver benefits beyond illumination.
The transition to connected lighting is occurring rapidly, particularly in developed countries. Professional systems typically control a large network of lights. Potential savings based on total cost of ownership tend to be significant. As an example, Interact City enables cities to centrally manage street lighting and adapt intensity depending on weather, traffic movement or organized events, thereby realizing significant energy cost savings. In addition, Signify also launched Interact Pro in 2018, which is bringing easy to install wireless connected lighting to small and medium sized enterprises, leveraging on the Philips Hue architecture. Signify had 30 million connected light points installed by the end of 2017. In 2018, Signify installed 14 million connected light points globally, to a total of 44 million, across all segments (both professional and consumer). The total number of existing light points worldwide is around 26 billion, showing that the connected lighting market continues to offer significant growth potential for Signify.

2019 and beyond

Professional continues to implement its strategy focused on Systems & Services, LED luminaire sales, including attractive growth platforms, such as Horticulture, Solar and LiFi, and the continued rationalization of its cost structure, supporting the company's objective to increase the Adjusted EBITA margin to a range of 11% to 14% by 2019.

Performance Home

About Home

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

Philips Hue, introduced in 2012, is the market leader in connected lighting for consumers. The system enables users to personalize their lighting to suit their preferences and needs. Users can control lights wirelessly through apps and smart devices, with their voice or with remote control switches.
The Philips Hue offering is being expanded on an ongoing basis. Recent examples of new innovations include a suite of Philips Hue Outdoor products and new Philips Hue luminaires for the living room and bathroom.

Key figures Home
in mEUR unless otherwise stated

	2017	2018
Sales [1]	508	467
Nominal sales growth [1]	34.0%	(8.0%)
Comparable sales growth [1] [2]	41.1%	(3.8%)
Income from operations (or EBIT) [1]	18	(44)
EBITA [1] [2]	22	(43)
Adjusted EBITA [1] [2]	12	(38)
as a % of sales [1]	2.3%	(8.1%)
Number of employees (in FTEs)	1,783	1,656

[1] Prior year has been restated after changes in business portfolio and allocation methods.
[2] For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.

Strategic priorities

Home aims to realize profitable growth by driving the transition to connected lighting for consumers in and around the house.
Its strategic priorities include strengthening the Philips Hue offering and broadening the lower cost portfolio to drive volumes. Furthermore, Philips Hue aims to further expand in growth markets. Home Luminaires aims to create scalable platforms to drive growth in functional luminaires and strengthen the global portfolio.

2018 Business highlights

- **Philips Hue Outdoor launch in the US and Europe:** the new Philips Hue Outdoor offering extends Hue features and functionality to any outside area. The new products span the Hue white and Hue white and color ambiance ranges.
- **New Philips Hue luminaires for living room, dining room, and bathroom:** For the living room, Philips Hue Play has been introduced, which is a versatile light bar that transforms your sitting room.
  With the Philips Hue Signe, the walls at home can be painted with light.
  New luminaires that have been introduced for delightful dining are the Philips Hue Ensis and Flourish. For the bathroom, seven new white ambiance luminaires are all pre-set with various light recipes.
- **Philips Hue Sync:** this enhances spatial immersion of games, movies and music. Hue Sync works on any Windows 10 or macOS (Sierra and later) computer. It is free to download.
- **Philips Hue App 3.0:** the app introduces new features and enhances existing app capabilities. The app is available on all iOS and Android-based devices.
- **New partners to the Friends of Hue program:** six new partners have been added to the Friends of Hue program, offering consumers a greater choice of products that seamlessly integrate with the Philips Hue smart lighting system.

2018 Financial performance

Sales amounted to EUR 467 million in 2018, with a nominal sales decline of 8.0% and comparable sales decline of 3.8%.
The decline mainly reflects high demand from trade partners in the United States in the second half of 2017 which led to lower sales levels in the first half of 2018, to allow for inventory reductions at these trade partners, and a high comparison base in the second half of 2018. In the second half of the year, activity returned to more normalized levels.

Income from operations amounted to EUR -44 million, mainly reflecting the unanticipated temporary decline in sales which consequently led to under absorption of the fixed cost base. Adjusted EBITA amounted to EUR -38 million, resulting in an Adjusted EBITA margin of -8.1%. In the course of 2018, a set of actions were taken to improve performance, including optimization of the cost base, which started to deliver results in the second half of 2018.

Market developments

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

2019 and beyond

The strategic priorities for the Business Group are expected to enable Home to be within the Adjusted EBITA margin range of 5% to 8% for 2019.

Performance Lamps

About Lamps

Lamps is the global market leader in the conventional lighting business and comprises the company's conventional lamps and lamp electronics business.
It produces and sells lamps based on a wide variety of non-LED based technologies. This includes HID, TL, fluorescent, halogen, as well as electronic components (electronic ballast and drivers) and specialty lighting. Consumer and Professional 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 via electrical wholesalers. Finally, Lamps sells digital projection lighting and drivers to the original equipment manufacturers (OEMs) market and the replacement market.

Key figures Lamps
in mEUR unless otherwise stated

	2017	2018
Sales [1]	1,788	1,428
Nominal sales growth [1]	(22.4%)	(20.1%)
Comparable sales growth [1] [2]	(19.0%)	(16.2%)
Income from operations (or EBIT) [1]	334	269
EBITA [1] [2]	335	270
Adjusted EBITA [1] [2]	345	302
as a % of sales [1]	19.3%	21.1%
Free cash flow [2] [3]	438	308
Number of employees (in FTEs)	11,224	9,393

1) Prior year has been restated after changes in business portfolio and allocation methods.
2) For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
3) Excluding non-allocated free cash flow items (e.g. tax, interest).

Strategic priorities

Lamps, the cash engine, enables Signify to leverage strong commercial synergies in brand coverage and customer reach and aims to optimize free cash flow. While the overall conventional market continues to decline, Lamps' focus is on winning market share in key segments and markets.
In addition, the Business Group maintains a focus on niche areas such as horticulture, special lighting and digital projection lighting. Lamps continues to proactively manage its manufacturing footprint and reduce operational costs.

2018 Business highlights

Legislation to ban certain conventional technologies remains an important factor impacting the development of the conventional market. In Europe, the halogen bulb ban came into effect on September 1, 2018. Despite these bans, Lamps still looks at opportunities for innovation.

- In 2018, for example, we introduced the **1000W GreenPower Xtra lamp** for greenhouse horticulture. The lamp provides 4% more guaranteed growth light. This leads to a higher fruit yield and at the same time a reduced heat output. In addition, the Philips 25R Platinum lamp has been introduced for Entertainment which is the brightest lamp in its class confirmed by key OEMs.

As part of its strategy, Lamps is proactively managing its manufacturing footprint.
The number of manufacturing plants in operation for conventional lamps was 14 at the end of 2018 compared with 45 at the end of 2008. Two sites were closed in 2018: the halogen factory in Aachen, Germany, and the factory in Mohali Punjab, India. Lamps intends to continue downscaling its manufacturing footprint in line with market developments.

2018 Financial performance

Sales for 2018 amounted to EUR 1,428 million, a decline of 20.1% on a nominal basis and 16.2% on a comparable basis. Income from operations reduced to EUR 269 million, due to ongoing sales decrease and higher restructuring costs, partly offset by proactive rationalization of the manufacturing footprint and a reduction in indirect costs. Restructuring costs amounted to EUR 32 million and were mainly related to further optimization of the manufacturing footprint. Adjusted EBITA for 2018 decreased to EUR 302 million compared with EUR 345 million in 2017.
The Adjusted EBITA margin improved by 180 basis points to 21.1% in 2018.

Lamps, being the world leader in conventional lighting, enables Signify to leverage strong commercial synergies in brand coverage and customer reach. As a cash engine, Lamps continues to deliver on its 'last man standing' strategy, which resulted in further market share gains and strong free cash flow generation of EUR 308 million in 2018.

Market developments

Signify estimates that the conventional lighting market declined at a faster pace than its Lamps business in 2018 and thus, continued to gain market share.

The conventional lamps market is expected to continue to decline in the coming years as a result of the ongoing transition from conventional lighting to LED lighting technologies.

2019 and beyond

The performance of Lamps in 2018 reflected the successful implementation of the 'last man standing' strategy to continue to extract value from the conventional business, supporting the 2019 guidance to maintain Adjusted EBITA margin of at least 16%. In 2019, Lamps will continue to execute its strategy and optimize free cash flow by leveraging the Business Group's cost advantage, scale, global footprint and lean manufacturing capabilities while responding to customer demand for conventional products.

Performance Other

Other reported EBITA of EUR -135 million, including restructuring costs of EUR 39 million. Other represents amounts not allocated to the operating segments and includes certain costs related to central R&D activities to drive innovation as well as group enabling functions. Adjusted EBITA amounted to EUR -87 million in 2018, compared with EUR -106 million in 2017. The improvement is mainly the result of the focus on indirect cost savings. The number of FTEs was 935 at the end of 2018, versus 1,079 at the end of 2017.

4.1.4 Performance by geographic cluster

Sales in Europe were 1.9% lower on a comparable basis than in 2017, which was mainly due to the UK, and deteriorating market conditions across various European countries from the summer. Sales in the Americas decreased by 9.6% on a comparable basis, mainly due to the ongoing decline in Lamps and the challenging situation for Home in the United States. In the Rest of the World, sales declined by 2.2% on a comparable basis. Signify saw a solid performance in countries such as India and Southeast Asia, offset by more challenging market conditions in China.

Sales by geography in mEUR unless otherwise stated

	2017	2018	Change	CSG [1,2]
Europe [3]	2,359	2,297	(2.6%)	(1.9%)
Americas	2,151	1,803	(16.2%)	(9.6%)
Rest of the world [3]	2,000	1,837	(8.1%)	(2.2%)
Global businesses	456	421	(7.6%)	(3.6%)
Total	**6,965**	**6,358**	**(8.7%)**	**(4.4%)**

[1] For a reconciliation to the most directly comparable IFRS financial measure, see chapter 18, Reconciliation of Non-IFRS Financial Measures, of this Annual Report.
[2] Comparable sales growth.
[3] Russia & Central Asia is included in Market Group Europe (was previously part of Rest of the World).

4.2 Sustainability performance

Social performance

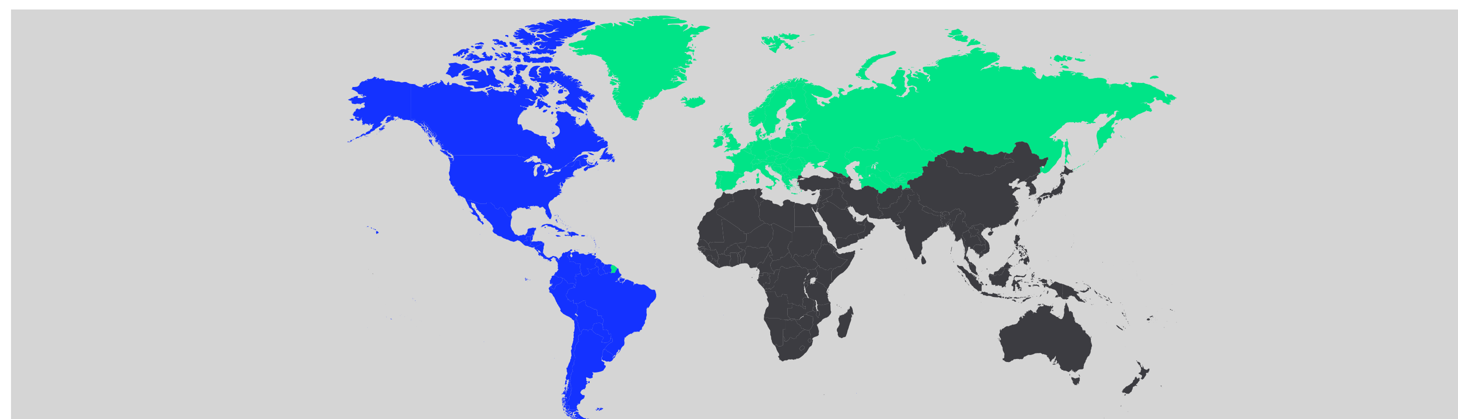
In 2018, our workforce decreased to 29,237 FTEs (2017: 32,130 FTEs). This was primarily due to our continued optimization of our industrial footprint and focus on reducing indirect costs. Employee engagement is measured through the employee Net Promoter Score (NPS). Our NPS remained stable in 2018 with an overall score of 13 (2017: 14) and with an increased score of 15 by the end of the year (Q4 2017: 14).
Our safety performance indicator (TRC rate) improved to 0.29 per 100 FTEs (0.41 in 2017). This is a 59% improvement from our 2015 baseline and meets our 2020 target on safety.

Environmental performance

Our operational carbon footprint was 401 kilotonnes, a decrease of 23% compared with 2017. This was due to a decrease in emissions from logistics and manufacturing activities. We also invested in carbon offsets resulting in a 49% net carbon footprint reduction year-on-year. In 2018, we were able to effectively reduce the amount of waste sent to landfill, as defined by our commitment, by 17% compared to 2017. In 2018, 82% of our total waste was recycled.

Through our global presence, we drive our sustainability programs across 19 markets to manage our social and environmental performance.

Sustainable performance per market



	FTEs		Manufacturing sites		Safety TRC rate		CO_2 emitted (kilotonnes)		Waste recycled	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Europe [1]	**13,823**	**12,697**	**17**	**16**	**0.56**	**0.31**	**154**	**126**	**83%**	**81%**
Benelux	4,334	3,620	4	4	0.48	0.29	28	22	85%	88%
Eastern Europe	6,527	6,572	6	6	0.43	0.24	93	74	83%	75%
DACH (Germany, Austria, and Switzerland)	664	425	1	0	0.85	0.17	5	5	89%	-
France	786	619	0	0	1.53	2.29	14	10	-	-
Iberia	640	658	2	2	1.20	0.85	5	6	80%	84%
Italy, Israel, and Greece	268	256	2	2	0.00	0.00	3	3	-	-
Nordics	260	243	1	1	0.00	0.00	2	2	-	-
UK & Ireland	344	304	1	1	0.56	0.00	4	4	63%	85%
Americas	**7,797**	**7,587**	**16**	**16**	**0.47**	**0.40**	**187**	**136**	**86%**	**88%**
Canada	713	669	2	2	0.79	1.30	10	9	89%	92%
Latin America	4,067	4,356	6	6	0.21	0.17	32	25	90%	89%
United States of America	3,017	2,563	8	8	0.81	0.54	145	102	81%	87%
Rest of the world [2]	**10,510**	**8,953**	**11**	**10**	**0.21**	**0.15**	**178**	**139**	**85%**	**75%**
Africa	126	123	0	0	n.a.	n.a.	5	5	-	-
ASEAN	519	463	0	0	0.00	0.00	6	6	-	-
Indonesia	180	173	0	0	0.00	0.00	4	3	-	-
Greater China	4,725	4,664	5	4	0.11	0.10	67	45	92%	96%
India	3,392	2,440	2	2	0.23	0.21	74	60	99%	100%
Far East	97	75	0	0	0.00	0.00	4	3	-	-
Middle East & Turkey	1,278	839	3	3	0.46	0.38	11	8	40%	25%
Pacific	193	177	1	1	0.10	0.00	7	9	-	-

[1] Russia and Central Asia is now included in Eastern Europe.
[2] Indonesia is now a new market; Japan and Korea are grouped under Far East.

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, 2018, the issued share capital consists only of ordinary shares; no preference shares have been issued. Under Article 10 of the Articles of Association of Signify N.V., the Board of Management can determine what portion of the net income shall be retained by way of reserve, subject to the approval of the Supervisory Board. A proposal will be submitted to the 2019 Annual General Meeting of Shareholders to declare a dividend of EUR 1.30 per ordinary share, in cash, from the 2018 net income, which represents an increase of 4% compared with 2017, and a pay-out ratio of 46%.

The balance sheet presented in this report, as part of the company financial statements for the period ended December 31, 2018, is before appropriation of the result for the financial year 2018.

4.4 Outlook

In 2019, the growing profit engines (LED, Professional and Home combined) are expected to deliver a comparable sales growth in the range of 2 to 5%. Lamps is expected to decline at a slower pace than the market in the range of -21% to -24% on a comparable basis. For Signify, we aim to reach an Adjusted EBITA margin in 2019 within the range of 11% to 13% set at the time of the IPO in May 2016. Signify expects free cash flow in 2019 to be above 5% of sales.

Signify will continue its journey to operational excellence. This will enhance growth, productivity and cash generation. The company's initiatives for 2019 include accelerating new growth platforms, driving sales excellence, and increasing efficiency of the manufacturing, supply chain, procurement and support functions.

5 Three-year overview

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

	2016	2017	2018
Income statement			
Sales	7,115	6,965	6,358
Comparable sales growth [1]	(2.4%)	0.5%	(4.4%)
Nominal sales growth	(4.7%)	(2.1%)	(8.7%)
Sales of LED based products (as a % of sales)	55%	65%	71%
Gross margin [2]	2,679	2,704	2,382
as a % of sales [2]	37.7%	38.8%	37.5%
Income from operations (EBIT)	369	441	410
Net income (loss)	185	281	261
Adjusted EBITA [1] [3]	633	669	640
as a % of sales [3]	8.9%	9.6%	10.1%
EBITA [1]	479	571	504
Net income (loss) attributable to shareholders	189	294	263
Earnings per share in EUR	1.26	2.04	1.95
Dividend per share in EUR [4]	1.10	1.25	1.30
Balance sheet			
Total assets	7,455	6,678	6,181
Shareholders' equity	2,704	2,242	2,041
Net debt [1]	341	367	589
Working capital [1] [5]	669	597	536
Investments and cash flow			
Cash flow from operating activities	505	435	381
Net Capital expenditure	(87)	(31)	(75)
Free Cash Flow [1]	418	403	306

[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] Prior years have been restated after changes in business portfolio and allocation methods.
[3] Prior years have been restated after lowering the threshold for other incidental items.
[4] 2018 Dividend subject to approval by the 2019 Annual General Meeting of Shareholders.
[5] Prior years have been restated to exclude income tax payable and receivable.

Three-year sustainability summary

	2016	2017	2018
Sustainable revenues, in millions of euros	5,536	5,363	5,005
Sustainable revenues, as a % of total sales	78%	77%	79%
Sustainable innovation, in millions of euros	272	277	236
Sustainable innovation, as a % of adjusted research & development spend	80%	83%	82%
Operational carbon footprint, in kilotonnes CO_2-equivalent	494	519	401
Operational energy consumption, in terajoules	4,460	4,408	4,054
Operational energy efficiency, in terajoules per million euro sales	0.63	0.63	0.64
Renewable electricity, as a % of total electricity usage	67%	80%	89%
Water intake, in thousands m^3	1,451	1,321	1,266
Total waste, in kilotonnes	40	44	41
Materials provided for recycling via external contractor per total waste, in %	85%	84%	82%
Restricted substances, in kilograms	6	5	4
Emissions of VOCs in lacquering processes	1,916	1,682	1,463
ISO-14001 certification, as a % of all reporting organizations	88%	85%	79%
Employee net promoter score	8	14	13
Female executives, in % of total	17%	17%	17%
Total recordable cases, per 100 FTEs	0.50	0.41	0.29
Lost workday injuries, per 100 FTEs	0.22	0.27	0.18
Fatalities	2	1	1
Initial and continual supplier conformance audits, number of audits	103	112	96
Suppliers audits, performance rate, in %	92%	95%	93%

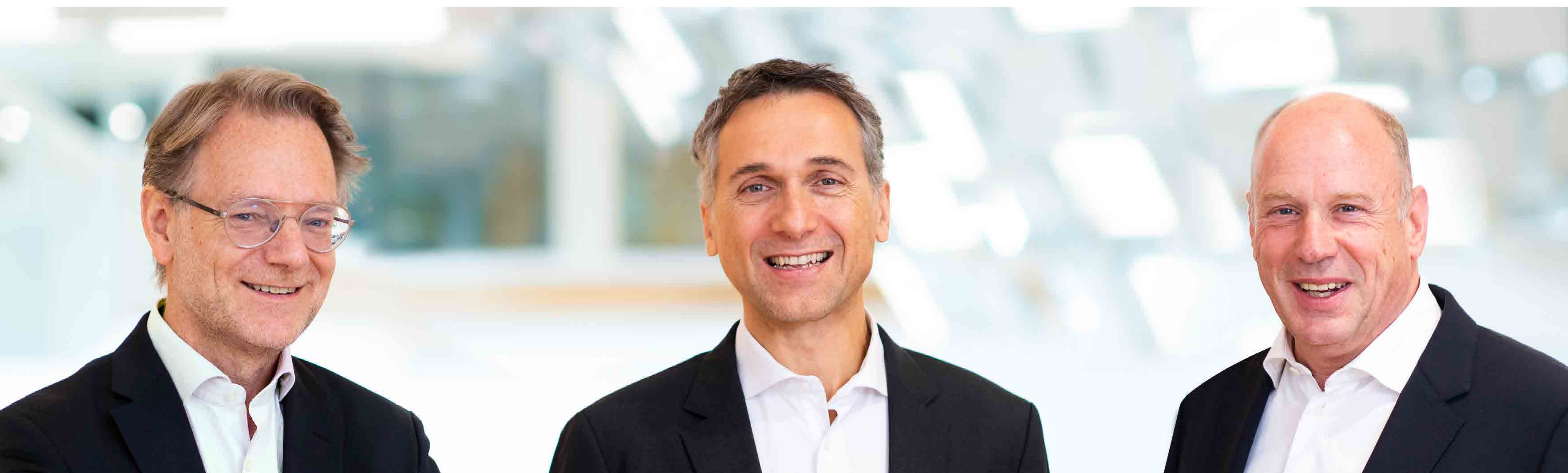
Governance

6 Board of Management

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

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

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



Stéphane Rougeot
Born 1968,
French

Chief Financial Officer
Member of the Board of Management since May 2017

Eric Rondolat
Born 1966,
Italian/French

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

René van Schooten
Born 1959,
Dutch

Member of the Board of Management since May 2016

7 Supervisory Board

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

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

Arthur van der Poel
Born 1948,
Dutch

Chairman

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

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

Gerard van de Aast
Born 1957,
Dutch

Vice-Chairman

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

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

Abhijit Bhattacharya *
Born 1961,
Indian

Committee(s) [A,B]
Member of the Supervisory Board since 2016

Currently Chief Financial Officer and member of the Board of Management of Royal Philips.

[A] Member of the Audit Committee
[B] Member of the Remuneration Committee
[C] Member of the Corporate Governance and Nomination & Selection Committee
* Abhijit Bhattacharya was member of the Supervisory Board throughout 2018. As previously announced, he stepped down from the Supervisory Board on December 31, 2018

Supervisory Board

Eelco Blok
Born 1957,
Dutch

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

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

Rita Lane
Born 1962,
American

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

Former Vice President of Operations at Apple Inc. Currently member of the Board of Directors of Sanmina Corp, member of the Board of Directors of L3 Technologies and several start-ups and non-profit organizations.

Jill Lee
Born 1963,
Singaporean

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

Currently Chief Financial Officer and member of the Executive Committee of Sulzer.

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

8 Supervisory Board report

8.1 Introduction by the Chairman

I am pleased to present our Supervisory Board report for 2018.

It has been an eventful year for the company. In May the company launched its new company name: Signify. The new name was well received by the public and the amendment of the company's articles of association changing its name from Philips Lighting N.V. to Signify N.V. received a near 100% positive vote by the company's shareholders. Meanwhile, the company continued its transformation from conventional lighting technologies to LED, smart and connected lighting despite challenging market conditions in several geographies.

We also saw Royal Philips continuing to sell down its shareholding in the company to 16.5% by year-end 2018. We had several changes to the composition to our board. Eelco Blok was appointed by the shareholders meeting and joined our board in May 2018. At the end of that same shareholders meeting in May 2018, Kees van Lede stepped down as a member of the Supervisory Board. Abhijit Bhattacharya, as the Royal Philips nominee, stepped down as Supervisory Board member at the end of 2018. As a result, the Supervisory Board currently has five members who are all independent.

The Supervisory Board supervises the policies and management and the general affairs of Signify. We also provide advice to the Board of Management.

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

This report provides information on how the Supervisory Board and its committees performed their duties in 2018. We are happy to see the continued progress Signify has made in 2018 and look forward to making a contribution in years to come.

8.2 Key discussion topics and meetings in 2018

Meetings and information

The Supervisory Board held nine meetings in 2018, either in person or by means of a conference call. One of the meetings took place in Somerset NJ, USA, the company's headquarters for the Americas.
The Supervisory Board and committee meetings were well attended, with an attendance rate of 100% of each Supervisory Board member. As Abhijit Bhattacharya is also a member of the board

of management of Royal Philips, he did not participate in decision-making on dividend distribution and on the company's participation in a sell down transaction by Royal Philips. Apart from these topics, there were no apparent conflicts of interest of material significance in 2018.

Supervisory Board and Committee Attendance Record

	Supervisory Board	Audit Committee	Nomination & Selection Committee	Remuneration Committee
Arthur van der Poel	9/9		7/7	4/4
Gerard van de Aast	9/9	6/6		4/4
Abhijit Bhattacharya	9/9	6/6		4/4
Rita Lane*	9/9	3/3	7/7	3/3
Jill Lee	9/9	6/6		
Eelco Blok**	6/6	3/3	5/5	

* Member of the Audit Committee until May 2018, and appointed member of the Remuneration Committee as of May 2018.
** Appointed member of the Supervisory Board, the Audit Committee and the Corporate Governance and Nomination & Selection Committee as of May 2018.

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

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

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

- **Business performance**
  During each Supervisory Board meeting, we discussed the company's business performance. These included updates on the company's financial performance, business transformation, cost reduction initiatives, developments in working capital, the level of inventories and collection of receivables, and M&A.
  During the Supervisory Board meeting in Somerset NJ, USA, dedicated sessions were held to discuss the performance of the Americas market group.

- **Financial reporting**
  We discussed the quarterly results and the (semi-)annual financial statements for 2018, including related reports from the internal and external auditors and non-financial information. The Board of Management provided us with updates and feedback from investors and other stakeholders following each publication of financial results.

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

- **Transformation and new company name**
  The Board of Management periodically updated the Supervisory Board on the company's transformation from conventional lighting technologies to LED, smart and connected lighting.
  We were updated on the company's steps in launching Signify as its new company name. The Supervisory Board also reviewed the company's organizational structure and its alignment with the changing business environment.

- **Operating plan for 2019**
  We discussed and approved the company's targets for 2019 within the context of its 2019 operating plan.

- **Capital allocation policy**
  We reviewed the capital allocation policy of the company. In this context we also discussed expectations as to cash generation, distributions, investments in innovation and M&A as well as implications for credit ratings. We discussed and approved to increase the amount allocated for share repurchases from EUR 150 million to EUR 300 million. We also discussed and approved the company's dividend proposal and its proposal to participate in a share disposal by Royal

Philips by means of an accelerated book building process, which decreased Royal Philips' shareholding in the company. As per the end of 2018, the shareholding of Royal Philips in the company decreased to 16.5%.

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

- **Sustainability**
  In 2018, we discussed the company's sustainability and corporate social responsibility programs and progress made towards their respective goals. More information on these programs is provided in chapter 16, Sustainability statements, of this Annual Report.

8.3 Key activities of the Supervisory Board committees in 2018

8.3.1 Audit Committee

The Audit Committee assists the Supervisory Board in fulfilling its supervisory responsibilities for, among others, ensuring the integrity of the company's financial statements and reviewing the company's internal controls. Jill Lee (chair as of April 1, 2018), Gerard van de Aast, Eelco Blok (as of May 15, 2018) are members of this committee. Rita Lane was a member of this committee until May 15, 2018. Abhijit Bhattacharya has stepped down as member of the Supervisory Board and this committee as per the end of 2018.

The Audit Committee met six times in 2018, upon the conclusion of each quarter and additionally in February and December. The Audit Committee reported its findings to the full Supervisory Board after every meeting. Generally, the CEO, CFO, Group Controller, Head of Internal Audit, Chief Legal Officer and external auditor (Ernst & Young Accountants LLP) also attend these meetings.

In 2018, the Audit Committee, as part of its standing agenda, had in-depth discussions on the company's periodic financial reports and related press releases. It also discussed with the Head of Internal Audit and the Board of Management major areas of risk and other attention points as identified through internal audits conducted, and progress and effectiveness of associated mitigation actions. The Audit Committee reviewed the internal audit plan and programs for each quarter. It also reviewed the internal audit charter, yearly audit plan (its scope, coverage and relation to that of the external audit plan), as well as the functioning, budget, staffing, independence and organizational structure of the internal audit function. Finally, the committee discussed, with the Board of Management and the Head of Internal Audit, the company's business control framework and any significant changes and improvements thereto. This framework sets the standard for risk management and business controls in the company. The Audit Committee reported on these matters to the full Supervisory Board.

In regard to the company's external auditors, the discussions also covered matters related to accounting policies, financial risks, and compliance with accounting standards, as well as compliance with (financial) legal requirements and relevant legal proceedings and related provisions. Other areas of Audit Committee review included the proposed external audit scope, approach, fees and the independence of the external auditor.

The committee also reviewed the professional fitness and good standing of the external auditor and its engagement partners. For information on the fees of Ernst & Young Accountants LLP, please refer to note B to the Company financial statements, Audit fees. The Audit Committee also reviewed its own charter.

8.3.2 Corporate Governance and Nomination & Selection Committee

The Corporate Governance and Nomination & Selection Committee is responsible for the review of selection criteria and appointment procedures for the Board of Management, certain other key management positions as well as the Supervisory Board. The committee is also charged with reviewing the corporate governance of the company (for more information on corporate governance refer to chapter 10, Corporate governance, of this Annual Report). Arthur van der Poel (chair), Rita Lane and Eelco Blok (as of May 15, 2018) are members of this committee. The committee met seven times in 2018 and reported its findings to the full Supervisory Board after every meeting.

As last year, the committee devoted specific attention to the size, composition and diversity of the Supervisory Board. Following a selection process, the committee proposed the Supervisory Board to propose Eelco Blok for appointment as member of the Supervisory Board. He was appointed by the Annual General Meeting of Shareholders

in May 2018. As per the end of 2018, Abhijit Bhattacharya stepped down as member of the Supervisory Board. In view of this change, the committee discussed candidates for appointment who match the profile of the Supervisory Board.
The Supervisory Board will propose a new candidate in due course.

Supervisory Board Skills and Expertise matrix
Indicating fields in which our Supervisory Board members have a particular skill or expertise

Skill/experience item	Arthur van der Poel	Gerard van de Aast	Rita Lane	Jill Lee	Eelco Blok
CEO role	√	√			√
Recent executive role			√	√	√
Industrial experience	√	√	√	√	
Finance, expert level		√		√	
Projects		√		√	√
Buildings/infrastructure		√			√
Business transformation	√	√			√
IT, IT risks, cybersecurity			√	√	√
Technology/innovation	√		√		√
Logistics, supply chain			√	√	
Geographies	Europe	Europe / USA	USA	Asia / Europe	Europe
Diversity elements: Gender, age, nationality	Male 70 Dutch	Male 61 Dutch	Female 56 American	Female 55 Singaporean	Male 61 Dutch

The committee dedicated time to discuss changes in the Dutch Corporate Governance Code and its implementation within the company. Furthermore, the committee discussed the company's corporate governance structure and discussed the committee's own charter.

Other matters that were discussed during the meetings of the committee included changes in key personnel positions, succession planning as well as the functioning of its members, and legislative developments as well as the Supervisory Board's performance evaluation procedures.

We believe that it is of strategic importance that our Board of Management and Supervisory Board are composed in line with Dutch and international corporate governance best practices and that they have the expertise needed for a good understanding of current affairs and long-term risks and opportunities related to the company's business, taking into account our objectives that promote diversity at board level. In 2018, the Board of Management's gender diversity did not meet our policy targets. At the time of the IPO, the CEO and business leader Lamps of the Lighting business of Royal Philips were appointed as board members of the company. These appointments recognize the importance of continuity of the business while transforming and starting to operate as a standalone company. In 2017, the Company had one vacancy in the Board of Management which was fulfilled by the appointment of Stéphane Rougeot at the Annual General Meeting of Shareholders in May 2017. For any potential future vacancies of the Board of Management, the Company will of course take into account the profile and all diversity objectives. We note that there may be various pragmatic reasons, such as other relevant selection criteria and the availability of suitable candidates within Signify, that could play a role in the achievement of our diversity targets.
The Supervisory Board meets the gender diversity targets. For more details on the profile including diversity of the Board of Management and Supervisory Board, please refer to chapter 10, Corporate governance, of this Annual Report. For more information on diversity and inclusion in the company, please refer to sub-section 16.2.4, Diversity & Inclusion, of this Annual Report.

8.3.3 Remuneration Committee

The Remuneration Committee is responsible for preparing decisions of the Supervisory Board on the remuneration of individual members of the Board of Management and certain other key management positions. Gerard van de Aast (chair), Arthur van der Poel and Rita Lane (as of May 15, 2018) are members of this committee. Abhijit Bhattacharya has stepped down as member of the Supervisory Board and this committee as per the end of 2018.

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

The Remuneration Committee met four times in 2018. The committee also consulted with the CEO, the Board of Management and certain other key management employees. Following those consultations, it prepared decisions and advised the Supervisory Board.

Matters discussed by the Remuneration Committee in 2018 included a remuneration scenario analysis, the results from a benchmark on the remuneration levels of

the company's Board of Management, interim performance results and the internal pay ratio. In addition, the Remuneration Committee discussed the decision by the Board of Management to mitigate the overall wage increase across the company for 2018. Following this decision, the Remuneration Committee was informed and appreciates that the members of the Board of Management waived, in full, the proposed salary increase for the board members in 2018.

Please also refer to the chapter 9, Remuneration report, of this Annual Report, for further information on the remuneration policy for the Board of Management and how it was implemented in 2018.

8.4 Performance evaluation

We performed an evaluation of the performance of the Board of Management and of the Supervisory Board and its committees in 2018. The Board of Management performed an evaluation of its functioning and the functioning of its individual members in a meeting of the Board of Management. The results of this evaluation were reported to the Chairman and discussed in the Supervisory Board.

This year we reviewed and sharpened the Supervisory Board self-evaluation process resulting in a revised questionnaire.
The members of the Supervisory Board and the members of the Board of Management filled in this questionnaire which evaluates the functioning of the Supervisory Board and its committees. The objective of the questionnaire was to gain better insight in the functioning of the Supervisory Board, to identify strengths which we want to keep and to identify matters which the Supervisory Board or company can improve. The questionnaire addresses specifically the composition and competences of the Supervisory Board, the meeting dynamics and the performance of each of the committees of the Supervisory Board.
An additional section of the questionnaire concerned the functioning of individual Supervisory Board members. Following an evaluation of the questionnaires, one-on-one discussions took place between the Chairman and the individual Supervisory Board members. The conclusions relating to the evaluation were discussed in the Corporate Governance and Nomination & Selection Committee, and in the Supervisory Board and we formulated attention points and actions for the year to come.
Throughout 2019 we will continue to critically look at the composition and functioning of the Supervisory Board and its committees.

We have experienced a constructive working environment in which we could fulfil our responsibilities and regarded the size of, and representation of experience and skills on our board to be adequate.

8.5 Financial statements 2018 and dividend

Signify's Consolidated and Company financial statements for 2018, as prepared by the Board of Management, have been audited by Ernst & Young Accountants LLP as independent external auditor appointed by the General Meeting of Shareholders.
Its report has been included in the Combined independent auditor's report. We have approved these financial statements.

We recommend the General Meeting of Shareholders to adopt the financial statements for 2018. We likewise recommend to shareholders that they adopt the proposal by the Board of Management to make a distribution of EUR 1.30 per ordinary share, in cash, from the 2018 net income.

8.6 Appreciation

We would like to express our thanks to the Board of Management and to all employees, for their dedication and hard work for the company in 2018. We would also like to extend our gratitude to Kees van Lede and to Abhijit Bhattacharya for their valuable contributions as members of the Supervisory Board.

February 26, 2019

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

9 Remuneration report

Introduction

The remuneration levels mix and all other contract terms for the members of the Board of Management are set by the Supervisory Board. The Signify remuneration policy, prepared in accordance with Dutch Corporate Governance Code and adopted in the General Meeting of Shareholders in 2017, is leading in determining the framework and content of the remuneration package.

9.1 Remuneration policy

The objective of the remuneration policy applicable to members of the Board of Management is to attract, motivate and retain qualified senior executives of the highest caliber with an international mindset and the professional background essential for the successful leadership and effective management of a large global company that is cost effective and is in line with market practices.

The remuneration package of the Board of Management consists of the following fixed and variable components: base salary, annual cash incentive, long-term equity-based incentive and pensions and other benefits. The targeted Total Direct Compensation levels (base salary, annual cash incentive and long-term equity-based incentive) are benchmarked regularly against relevant markets. The targeted Total Direct Compensation level typically is around the median level of a specific peer group, however remuneration levels of comparable roles in other companies and markets are also taken into consideration. These reference groups are established based on industry, ownership type, geographical presence, business characteristics and scope parameters. Input to the decision process around adjustments to the remuneration package is the above-mentioned benchmark, the approved remuneration policy, input from the Board of Management, advice from external and independent advisors and the input from the full Supervisory Board.

Our remuneration policy supports a pay-for-performance philosophy and long-term value creation. Approximately two-thirds of the total package is variable pay with an annual component linked to financial and non-financial targets and the long-term component linked to the development of the Signify share price.

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.

Although an important element of remuneration, pension and other benefits are not considered part of the Total Direct Compensation.

Total direct compensation Board of Management 2018 in EUR

	Base compensation/ salary	Annual cash incentive (on-target)	Long-term equity-based component (on-target)
E.H.E. Rondolat	850,000	80% of annual base	100% of annual base
S.L.A. Rougeot	556,000	60% of annual base	80% of annual base
C.L. van Schooten	555,000	60% of annual base	80% of annual base

9.1.1 Base salary

The base salary of the members of the Board of Management aims to reflect the responsibility and scope of their role.
The base salary of each member of the Board of Management is a fixed cash compensation paid monthly. The base salary can be adjusted by the Supervisory Board in accordance with the remuneration policy following the results of benchmark studies, taking internal and external developments and discussions between the Board of Management and the Supervisory Board into consideration.

9.1.2 Annual (cash) incentive

Members of the Board of Management are eligible for an Annual Incentive. The pay-out of the Annual Incentive follows an assessment of performance against a combination of financial- and non-financial targets set, using multiple performance measures. The targets as well as relevant measures are set annually in advance by the Supervisory Board.

The Annual Incentive on-target opportunity is 80% of the base salary for the Chief Executive Officer and 60% for other board members and is capped at two times the on-target opportunity. The majority, 80%, of the Annual Incentive opportunity is related to financial performance measures and the remaining 20% is linked to non-financial, but quantitative, individual/team targets.

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

9.1.3 Long-term equity-based incentive

All members of the Board of Management are eligible for a long-term equity-based incentive under the company's Long-term Incentive Plan.

In addition to the Board of Management, another approximately 600 employees globally are eligible for participation in a similar Signify Long-term Incentive Plan.

The main characteristics of the Long-term Incentive Plan for the Board of Management are as follows:

For the Board of Management (and certain members of senior management), the Long-term Incentive Plan consists of performance shares only. Shares are conditionally granted annually. The annual on-target grant value is a percentage of the base salary. For the Chief Executive Officer, the annual on-target grant value is set at 100% of base salary and for the other members of the Board of Management at 80% of base salary.

Vesting of these shares is conditional on the achievement of performance conditions measured over a period of three years.

The performance condition measurement is based on three measures: Relative Total Shareholder Return (TSR) (40%), Free Cash Flow (40%) and Sustainability (20%).
A strong performance on these performance measures is key for long-term value creation.

Relative TSR

The vesting of 40% of the shares granted is subject to a TSR condition. Relative TSR measures the share price growth plus dividends paid over the three-year performance period. Relative TSR calculations are conducted by using the following approach: Return Index data are averaged over a three-month period (of daily data) preceding the start and the end of the measurement period.
This performance is expressed as a percentage. This percentage is compared to the TSR performance of companies included in the peer group specifically compiled for this purpose (see table below). All the TSR performance of the companies in the peer group are ranked top to bottom and after that ranking, the position in the peer group and the pay-out curve determines the pay-out level.

TSR Peer Group

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

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

Performance-incentive zone for TSR in % of grant value

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

Sustainability targets

Program	2018 Result	Target 2020
Sustainable revenues	79%	80%
LED lamps & luminaires delivered	1.749 billion	> 2 billion
Carbon footprint	Net 146 kilotonnes CO_2	Net 0 kilotonnes CO_2
Waste to landfill	2.4 kilotonnes	0 kilotonnes
Safe & Healthy Workplace	TRC = 0.29	TRC = 0.35
Sustainable Supply Chain	Supplier performance rate of 93%	Minimum performance rate of 90%

Free cash flow

The vesting of another 40% of the annual long-term incentive grant is linked to performance measured by a free cash flow target over the three-year performance period. Vesting can vary between zero and two times the number of performance shares initially granted.

Sustainability

The vesting of the remaining 20% of the annual long-term incentive grant is dependent on how well Signify performs against the targets set with respect to the sustainability condition.

The sustainability targets are always set at aspirational level, but will be set and fixed per vesting cycle. However, it is not always feasible to calculate the exact performance and therefore it is to the Supervisory Board's discretion to determine (based on measured performance) an appropriate pay-out level. As input to this discretionary decision, the Supervisory Board will use performance against targets as defined in Signify's sustainability ambition.

Vesting can vary between zero and two times the number of performance shares initially granted.

9.1.4 Change of control

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

9.1.5 Share ownership guidelines and holding requirement

The members of the Board of Management must hold a certain value in shares in the company, i.e. 300% of base salary for the CEO and 200% of base salary for other members of the Board of Management. This guideline requires that all after-tax shares be retained until share ownership guidelines and holding requirements (five years after grant date of the equity based incentives) are met, after which time, shares may be sold (subject to the conditions of relevant insider trading rules).

9.1.6 Claw back and value adjustment

Annual cash incentives as well as the long-term equity-based incentives are subject to claw back provisions pursuant to Dutch law.

9.1.7 Pensions and other benefits

Members of the Board of Management are eligible to receive post-employment benefits by participating in the company's pension plan. Effective January 1, 2015, pension plans that allow pension accrual based on a pensionable salary exceeding an amount of (for the year 2018) EUR 105,075 are, for fiscal purposes, considered to be non-qualifying schemes. For this reason, the Executive Pension Plan in the Netherlands has been terminated.
The following pension arrangement is in place for the current members of the Board of Management:

- Flex Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of 26.2% up to the maximum pensionable salary of EUR 105,075. The Flex Pension Plan has a target retirement age of 68 (in 2018) and a target accrual rate of 1.85%;
- A gross Pension Allowance equal to 25% of the base compensation exceeding EUR 105,075;
- A temporary gross Transition Allowance, for a maximum period of eight years (first five years in full; year 6: 75%; year 7: 50%, year 8: 25%). The temporary gross Transition Allowance only applies to members of the Board of Management who were employed before January 1, 2015 and still participated in the former Executive Pension Plan, before the change to the Flex Pension Plan per January 1, 2015 with the capping of pension accruals and increase of pensionable age in line with the retirement age for state pension (AOW). The level of the allowance is based on the age and salary of the Board Member on December 31, 2014.

Members of the Board of Management are also entitled to other benefits, such as expense and relocation allowances, medical insurance, life and accident insurance and company car arrangements. For more details, see note 30, Information on remuneration.

9.1.8 Additional arrangements

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

9.1.9 Service contracts

Members of the Board of Management enter into a service agreement ('overeenkomst van opdracht') with the company. The terms and conditions of these service agreements have been aligned with the relevant Code provisions. Termination of the service contract by either party is subject to a six-month notice provision.

Members of the Board of Management are engaged under contract for a period of four years, it being understood that this period expires no later than at the end of the year following the AGM held in the fourth year after the year of appointment.

9.1.10 Severance arrangements

The service contracts also contain severance provisions which provide for compensation for the loss of income resulting from a termination of employment with a maximum payment of one year's fixed base compensation.

9.1.11 Loans

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

9.2 Effectuation of the remuneration policy in 2018

9.2.1 Base salary

The annual compensation of the members of the Board of Management has been reviewed in 2018 as part of the regular remuneration review. The Remuneration Committee has considered the input of the Board of Management members in setting their pay levels. However, to lead by example, the Board of Management agreed to waive the base salary increase proposed for 2018. The annual base salary of Eric Rondolat has not been adjusted in 2018 and remained unchanged at EUR 850,000. The annual base salary of Stéphane Rougeot remained unchanged at EUR 556,000. The annual base salary of René van Schooten remained unchanged at EUR 555,000.

9.2.2 Annual (cash) incentive

The financial performance measures used in the Annual Incentive to track performance were Comparable Sales Growth, Adjusted EBITA (measured as a percentage of sales) and Free Cash Flow.

The financial targets for 2018 were set within the context of the medium-term objectives of the company. Signify does not disclose these specific financial targets as these targets are considered commercially sensitive.

Annual incentive realization 2018 (pay-out in 2019) in EUR

	Realized annual incentive	On-target % of annual base	Realized % of annual base (2018)
E.H.E. Rondolat	410,720	80%	48.3%
S.L.A. Rougeot	201,494	60%	36.2%
C.L. van Schooten	201,132	60%	36.2%

Annual incentive realization 2018

Performance measures	Weighting	
Comparable Sales Growth	30%	
Adj. EBITA	30%	
Free Cash Flow	20%	
Non-financial individual/team targets	20%	
Multiple Achieved		60.4%

9.2.3 Long-term equity-based incentive

In 2018, performance shares were granted to the members of the Board of Management. These grants are governed by the Signify Long-term Incentive Plan. The performance share awards granted by Royal Philips in 2015 vested in 2018. In 2016 for the last time performance shares have been granted by Royal Philips and these shares will vest in 2019.

The table below provides an overview of both the Signify and Royal Philips performance shares awarded.

Performance shares 2015-2018

	Grant date	Number of performance shares originally granted	Value at grant date (in EUR)	End of vesting period	Number of performance shares vested in 2018	Value at vesting date in 2018 (in EUR)
E.H.E. Rondolat	2015 [1,2]	28,217	725,000	2018	47,038	1,655,802
	2016 [1,2]	36,080	880,000	2019	n.a.	n.a.
	2017 [3]	31,253	850,000	2020	n.a.	n.a.
	2018 [3]	28,103	850,000	2021	n.a.	n.a.
S.L.A. Rougeot	2017 [3]	16,355	444,800	2020	n.a.	n.a.
	2018 [3]	14,708	444,800	2021	n.a.	n.a.
C.L. van Schooten	2015 [1,2]	9,730	250,000	2018	16,220	565,966
	2016 [1,2]	15,785	385,000	2019	n.a.	n.a.
	2017 [3]	16,325	444,000	2020	n.a.	n.a.
	2018 [3]	14,680	444,000	2021	n.a.	n.a.

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

9.2.4 Share ownership

On December 31, 2018, Eric Rondolat held 44,000 Signify shares, Stéphane Rougeot held 10,000 Signify shares and René van Schooten held 12,500 Signify shares.

9.2.5 Signify's internal pay ratio

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

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

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

- Total CEO remuneration consists of the following components for the full year 2018: base salary EUR 850,000 (2017: EUR 850,000) + short-term incentives EUR 410,720 (2017: EUR 753,440) + long-term incentives at fair value at grant EUR 850,000 (2017: EUR 850,000) + benefits EUR 364,482 (2017: EUR 357,760).
  All figures are full year, based on the information provided in note 30, Information on remuneration;
- Employee average remuneration based on total employee benefit expenses as disclosed in note 7, Employee benefit expenses, and total employees in FTEs (third party workers excluded) as disclosed in note 8, Employees.

Consequently, Signify's calculated pay ratio in 2018 is 40 (2017: 44), implying that the CEO pay is 40 (2017: 44) times the average pay of an employee.

9.2.6 Pool size

The number of shares to be granted on a yearly basis to all eligible employees under the Long-term Incentive Plan is approximately 1.5 million. The first main vesting of Signify shares under the Long-term Incentive Plan will occur in 2020.

The number of shares to be granted depends on the eligible population, the overall at target value and the share price as the at target value is divided by the three months' average share price preceding the date of grant to determine the number of shares to be granted.

9.3 Remuneration outlook 2019

9.3.1 Base salary

The annual compensation of the members of the Board of Management has been reviewed in 2018 as part of the regular remuneration review. Based on benchmark data, internal and external development of remuneration levels, for 2019 it was decided to adjust the base salary levels for the members of the Board of Management by 2.5%. The base salary for Eric Rondolat was increased from January 1, 2019 to EUR 871,000. The base salary of Stéphane Rougeot was increased from January 1, 2019 to EUR 570,000 and the base salary of René van Schooten was increased from January 1, 2019 to EUR 569,000.

9.3.2 Annual (cash) incentive

For 2019 the Supervisory Board has decided to use the same performance measures for the Annual Incentive Plan as were used in 2018: Comparable Sales Growth, Adjusted EBITA and Free Cash Flow.

9.3.3 Long-term equity-based incentive

No adjustments to the long-term equity-based incentive are foreseen in 2019.

10 Corporate governance

Introduction

Signify N.V., a public company with limited liability organized under Dutch law, is the parent company of the Signify group. Signify became the new company name of Philips Lighting as of May 16, 2018.

In May 2016, Royal Philips offered part of its shares in the share capital of Signify N.V. to the public and the shares in the capital of Signify N.V. were listed on Euronext Amsterdam. Following several sell downs by Royal Philips in 2017 and 2018, it held a 16.5% of the issued share capital of Signify N.V. at year-end 2018.

In the context of the initial public offering, Signify N.V. and Royal Philips entered into an agreement containing certain arrangements regarding the continuing relationship between Signify N.V. and Royal Philips (Relationship Agreement). The Relationship Agreement, with the exception of certain specific provisions, terminates on the date that Royal Philips' holding of ordinary shares in the share capital of Signify N.V. falls below 10% of the issued and outstanding ordinary shares. The full text of the Relationship Agreement is available on the company's website.

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

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

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

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

10.1 Signify organization

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

In addition, the company's commercial organization is structured along four geographical Market Groups to manage its global sales channels. The Market Groups are principally responsible for driving and managing sales, managing customer

relationships and delivering the commercial activities of the business across our markets, covering commercial activities in almost all countries in the world.
The company operates in many countries via its subsidiaries and affiliated companies as well as via a limited number of branch offices, which primarily act under the Signify or Philips Lighting trade names.

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

10.2 Board of Management

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

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

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

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

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

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

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

Appointment and composition

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

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

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

Remuneration

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

Diversity

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

In view of the above, Signify aims for the Board of Management and the Supervisory Board to be composed of members that bring a diversity of skills and expertise relevant for achieving the company's strategic and business objectives, different views and perspectives as well as different backgrounds (nationality, educational, working experience or otherwise), and that at least 30% are men and at least 30% are women. The latter is in line with Dutch legislation on board diversity which provides that the company must pursue a policy of having at least 30% of the seats on the Board of Management and Supervisory Board held by men, and at least 30% by women.

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

Conflicts of interest

Members of the Board of Management or Supervisory Board shall not participate in the discussions and decision-making process on a subject or transaction which they have a direct or indirect personal conflict of interest or have a conflict of interest within the meaning of the Dutch Corporate Governance Code. Relevant matters relating to conflicts of interests, if any, must be approved by the Supervisory Board and shall be mentioned in the Annual Report for the financial year in question. No legal acts as referred to above occurred during the financial year 2018 with the exception that the Royal Philips nominee sitting on the Supervisory Board did not take part in the decision-making process with regard to the dividend distribution and the company's participation in sell down transaction by Royal Philips of its stake in the company.

Outside directorships

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

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

10.3 Supervisory Board

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

Appointment and composition

The members of the Supervisory Board are appointed by the General Meeting on the nomination of the Supervisory Board, which nomination may be binding. Pursuant to the Relationship Agreement, Royal Philips has the right, under the terms and conditions set out therein, to nominate candidates for appointment of one seat on the Supervisory Board (Royal Philips nominee) as long as it holds a 15% or larger stake in Signify N.V. The Dutch large company regime (*structuurregime*) does not apply to Signify N.V. itself.

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

In 2018, the Supervisory Board consisted of six members of whom the Royal Philips nominee (Abhijit Bhattacharya) was not independent. The other five members of the Supervisory Board are all independent. The Supervisory Board has appointed one of its independent members as chairman. On December 31, 2018, the Royal Philips nominee stepped down from the Supervisory Board, as a result of which there is no longer a Royal Philips nominee on the Supervisory Board.

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

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

Remuneration

The remuneration of the individual members of the Supervisory Board, as well as the additional remuneration for its Chairman and the members of its committees,

is determined by the General Meeting.
The remuneration of a member of the Supervisory Board consists of a fixed amount depending on the member's position on the board (chairman/vice chairman/other board members), an additional fee for the function of chair or member of committees and compensation for travel.
The remuneration of a Supervisory Board member is not dependent on the results of the company. Shares or rights to shares shall not be granted to a Supervisory Board member.

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, in 2018 with the exception of the Royal Philips nominee who stepped down from the Supervisory Board on December 31, 2018.

Supervisory Board Committees

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

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

Audit Committee

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

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

Corporate Governance and Nomination & Selection Committee

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

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

Remuneration Committee

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

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

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

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

10.4 General Meeting of Shareholders

The main powers of the General Meeting are:

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

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

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

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

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

The authorized share capital of the company amounts to EUR 6 million, divided into 300 million ordinary shares with a nominal value of one eurocent each and 300 million preference shares also with a nominal value of one eurocent each. On December 31, 2018, the issued share capital amounted to EUR 1.28 million, divided into 128,344,238 million ordinary shares and no preference shares. All shares are fully paid-up.
The shares are in registered form. There are currently no limitations either under Dutch law or the company's Articles of Association, as to the transfer of ordinary shares in the share capital of the company.

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

At the AGM held on May 15, 2018, the General Meeting resolved to authorize the Board of Management for a period of 18 months, effective as of May 15, 2018, to issue shares or grant rights to acquire ordinary as well as to restrict or exclude the pre-emptive rights accruing to shareholders, in each case up to a maximum of 10% of the issued share capital as at May 15, 2018 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 15, 2018 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 have been issued as of December 31, 2018. 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.

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 a term loan facility and revolving credit facility and the Trade Mark License Agreement entered into with Royal Philips. The credit agreement includes a change of control provision which allows the lenders to cancel the commitment under the facility and declare any outstanding amounts under the facility agreement immediately due and payable whereupon such amounts will become immediately due and payable.

10.5 External auditor

Under Dutch law, the external auditor of the company is appointed by the General Meeting. In accordance with the Dutch Corporate Governance Code, the Supervisory Board selects and nominates an external auditor for appointment, upon advice by the Audit Committee. The Supervisory Board and the Audit Committee assess the functioning of the external auditor, taking the observations from the Board of Management into account. The General Meeting appointed Ernst & Young Accountants LLP as external auditor of the company for the financial years 2016 through 2019.

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

Auditor independence

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

Prohibition on non-audit services

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

10.6 Dutch Corporate Governance Code

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

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

11 Investor relations

11.1 Shareholder engagement

We attach great value to maintaining an open dialog with our shareholders, investors and equity analysts to promote transparency and receive valuable feedback. We conduct extensive investor outreach throughout the year involving investor relations, members of the Board of Management, and the Chairman of the Supervisory Board, to ensure that management and the Supervisory Board understand and consider the issues that matter most to our shareholders so Signify can address these effectively.

In 2018, Signify hosted around 125 conference calls and around 215 investor meetings through 25 roadshow days, 13 investor conference days and inhouse meetings, thereby reaching around 280 unique investment institutions and covering more than 60% of our free float. As part of this engagement, we met at least twice with 13 of our largest 15 shareholders, excluding Royal Philips and passive shareholders, through at least 50 meetings and conference calls.

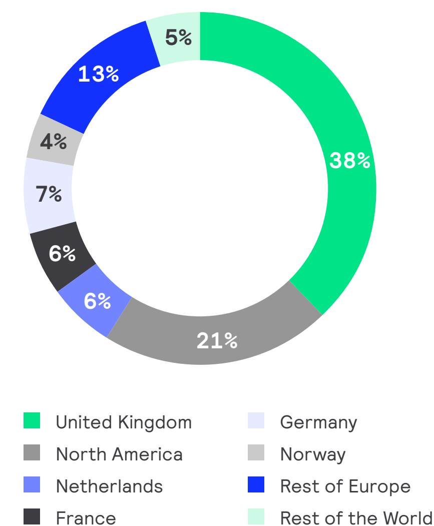
Each quarter, the company also organizes conference calls for research analysts and institutional investors on the day the quarterly results are published to discuss these results, which can be accessed and replayed on the Signify Investor Relations website. In addition, Signify organizes analyst lunches bi-annually hosted by CEO Eric Rondolat and CFO Stéphane Rougeot.

At least once a quarter, the Supervisory Board receives a report that summarizes the feedback from institutional shareholders and investors as well as equity analysts, which gives the members of the Supervisory Board a clear understanding of shareholders' views and concerns.

11.2 Shareholder base

Signify has a broad base of international shareholders, as shown in the chart below. The information is based on independent shareholder identification analysis using available data at the end of 2018.

Geographical distribution of shares [1]



[1] Excluding treasury shares, and shares held by Royal Philips, 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, 2018, and the related actual interests.

In 2018, Royal Philips decreased its holding in the capital of Signify N.V. from 29.0% to 16.5%, partly by selling an aggregate of 16.2 million shares via an accelerated book build offering to institutional investors and to the company.

Signify shareholders

	% Actual interest [1]	Total % registered [2]
Koninklijke Philips N.V. [3]	16.5%	16.5%
Baillie Gifford & Co	5.1%	5.1%
LSV Asset Management	3.0%	3.0%
JP Morgan Asset Management Holding Inc	2.9%	3.0%

[1] The actual interest reflects the % registered interest, excluding potential interests, such as options, futures, forward-rate agreements and other derivatives contracts.
[2] The total % registered includes the actual and potential interests such as options, futures, swaps, forward-rate agreements and other derivatives contracts.
[3] Based on information received from Royal Philips.

Source: AFM

11.3 Annual General Meeting of Shareholders

The 2019 Annual General Meeting of Shareholders will be held on May 14, 2019. The agenda and the explanatory notes to the agenda will be published on the company's website. The record date for the 2019 Annual General Meeting of Shareholders is April 16, 2019, after processing all settlements of that date. People registered as shareholders in the designated register on that date, and who have applied to attend the meeting, will be entitled to attend and vote on the meeting.

11.4 Capital allocation

Capital allocation policy

Signify continues to exercise strict financial discipline in the generation and use of cash and remains committed to managing its financial ratios to maintain a financing structure compatible with an investment-grade profile, including disciplined management of its balance sheet. Furthermore, the company continues to consider non-organic opportunities primarily through small- to medium-sized acquisitions to accelerate growth.

Dividend policy

Signify targets a dividend pay-out ratio of 40% to 50% of continuing net income to be paid out annually in cash. Continuing net income is defined as net income excluding discontinued operations and excluding material non-recurring items such as restructuring and acquisition-related charges after tax. 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 payment of dividends, amounts and timing. These may be beyond the control of the company. For 2018, continuing net income was calculated based on net income attributable to shareholders of EUR 263 million. By adding back the impact of restructuring costs (EUR 118 million), incidentals (EUR 10 million) and subtracting the related tax impact (EUR 34 million), Signify's total continuing net income for 2018 was EUR 357 million.

Proposed dividend

A proposal will be submitted to the 2019 Annual General Meeting of Shareholders (AGM) to pay EUR 1.30 per ordinary share, in cash, from the 2018 net income. This represents an increase of 4% compared with last year and a pay-out ratio of 46% of continuing net income. The dividend payment is subject to approval by the 2019 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	Dividend record date	Dividend payment date
Signify shares	May 16, 2019	May 17, 2019	May 28, 2019

Share repurchases

In 2018, Signify repurchased 2.2 million shares from Royal Philips for an aggregate amount of EUR 71 million. In the open market, 9.7 million shares for a consideration of EUR 220 million were repurchased between July 30 and December 7, 2018. All these shares have been cancelled, reducing the issued share capital to 128 million shares at the end of 2018 (143 million at the end of 2017).
In addition, a total of 1.3 million shares were repurchased for a total consideration of EUR 33 million to cover obligations arising from the company's long-term incentive performance share plan and other employee share plans. These repurchases took place between May 2 and May 25, 2018.
More details on Signify's share repurchases can be found here.

In line with its capital allocation policy, Signify will continue to look for non-organic growth opportunities primarily through small to medium-sized acquisitions. If, in the course of 2019, the funds needed for non-organic growth opportunities are substantially less than the capital available, the company will consider other use of its capital, which includes returning excess cash to shareholders through share repurchases.

II.5 Debt info

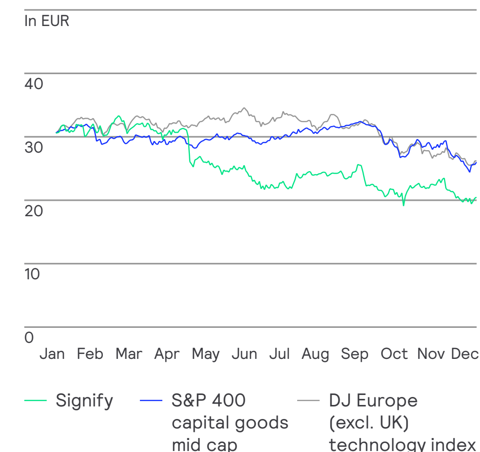
In May 2016, the Company entered into a five-year term loan facility agreement. The amounts of the term loan facility are EUR 740 million and USD 500 million.
The term loan facility is repayable at the end of the term in May 2021 and may also be repaid without penalty at the option of Signify during the term.

In addition, Signify also entered into a five-year committed Revolving Credit Facility of EUR 500 million in May 2016. As of December 31, 2018, Signify didn't have any amounts outstanding under this facility.
More information about our debt position can be found here.

II.6 Share performance

In 2018, the share price of Signify showed a similar trend as the S&P capital goods mid-cap index and the Dow Jones Europe (excl. UK) Technology index. The share price decreased by 33% in 2018, compared to a 15% decline of the S&P capital goods mid-cap index and a 10% decline of the AEX. The market capitalization at year-end 2018 was EUR 2.6 billion and the free-float was 98%.

Share price development



II.7 Financial calendar

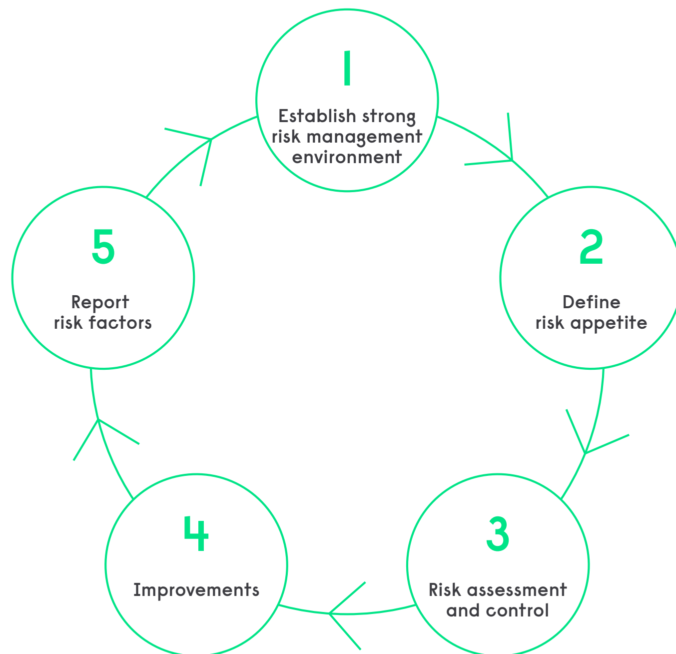
Financial calendar 2019

Q1 2019 financial report	April 26, 2019
AGM 2019	May 14, 2019
First-half 2019 financial report	July 26, 2019
Q3 2019 financial report	October 25, 2019

12 Risk factors and risk management

Introduction

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



12.1 Establish strong risk management environment

Signify's risk management environment is embedded in the corporate governance, the business control framework and the general business principles (GBP).

Corporate governance

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

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

Business Control Framework

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

General Business Principles

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

We define integrity through our general business principles. They apply to each of us as individuals wherever we are in the company. They define our commitment to act with integrity with each other, with our customers, business partners, shareholders and the wider community in which we operate.

The general business principles have been adopted by the Board of Management. They are reviewed on a regular basis and revised where necessary. They apply to all employees of Signify N.V. and its controlled subsidiaries. The general business principles are not all-encompassing but formulate minimum standards of behavior.

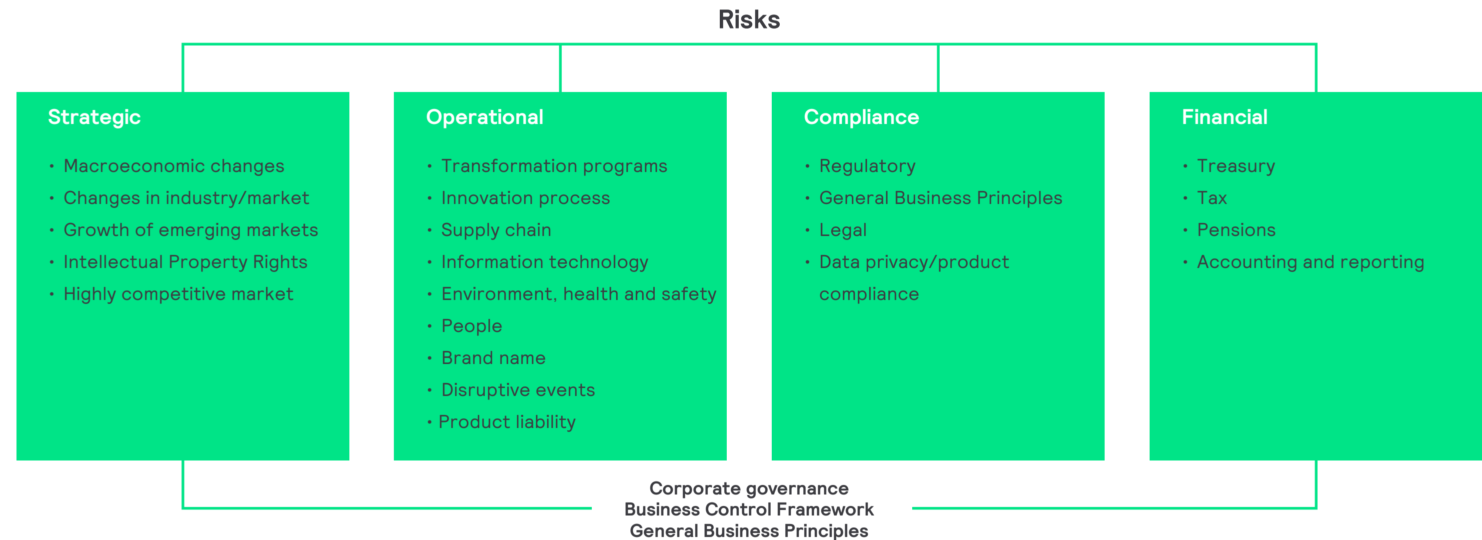
The company has underlying policies that form an integral part of the GBP.

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

The GBP are supported by mechanisms that ensure standardized reporting, escalation and investigation of concerns. These mechanisms are based on the GBP Reporting Policy that urges employees and third parties to report any concerns they may have regarding business conduct in relation to the GBP, 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 2018 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 those 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 is prepared to take some strategic risks, balancing the need to capture return from opportunities and manage risks. This may include investing in certain markets, in R&D and managing the portfolio of businesses, in acquisitions and divestments in a highly uncertain global political and economic environment.

Operational risks

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

Compliance risks

These risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. The company has a zero-tolerance policy towards non-compliance in relation to breaches of regulations and its GBP.

Financial risk

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

12.3 Risk assessment and control

In order to provide a comprehensive view of the company's business strategy and activities, risks and opportunities are identified in a structured way, combining elements of top-down and bottom-up approaches. Top-down, an annual risk workshop at enterprise level is held with the Company leadership team. The bottom-up identification and prioritization process is supported by dedicated workshops, dedicated committees or as an integral part of the planning review cycle with the respective management at the Business Groups, Market Groups and Function levels.

Strategic risk

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

Operational risk

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

Compliance risk

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

With an annual GBP self-assessment process forming part of ICS, compliance to the GBP forms part of management's ICS monitoring process. Management of each business unit signs off on compliance with the GBP, 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 with the GBP after having completed the e-learnings. In 2018, all employees were required to complete one or more e-learnings on the GBP and related legal compliance domains. Specific target groups were required to participate in recurring face-to-face trainings. In addition, each year Finance and Procurement employees are asked to sign off on the Financial and the Procurement Codes of Ethics respectively. All executives are asked to sign off on the GBP each year to confirm their awareness of and compliance with the code. Violations of the GBP will result in disciplinary action, up to and including dismissal.

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

Financial risk

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

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

An ICS monitoring process exists for all material reporting units, where business process owners engaged in the key financial processes perform self-assessment on several key controls, document the results, and take corrective action where necessary.

ICS supports business and functional management in a periodic cycle of assessment and monitoring of the control environment.

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

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

12.4 Improvements

Following the deconsolidation by Royal Philips, we are no longer subject to the Sarbanes Oxley Act. This allowed us to make certain changes in our ICS approach. This means that we focus more on the design and effectiveness of processes and inherent control measures and less on monitoring. Therefor we have decided that we will monitor primarily key risks and lower the frequency of self-assessments from twice in 2018 to an annual cycle in 2019 and we will primarily monitor key risks. These key risks have been determined in risk session with (Global) Business Process Owners.

In respect of the operations in Saudi Arabia, the company continued to work on the remediation of weaknesses identified during the internal review. KSA has made improvement on overall governance and risk management which is evidenced by a positive internal audit report in year 2018.

12.5 Report risks factors

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

Strategic risks

As the company's business is global, its operations are exposed to economic and political developments in countries across the world that could adversely impact its financial condition and operating results.

The company's business environment is influenced by economic and political conditions in the domestic and global markets. The company continues to experience the impact of changes in macroeconomic development in various geographies – particularly in China, where in 2018 economic growth was at its lowest level in the last 25 years. Also, the economic growth of countries highly dependent on revenues from energy, raw materials and commodities has been adversely affected by the slowdown of growth in China. This has been felt most strongly in emerging market countries. The disparate macroeconomic outlook for the main geographies, political conflicts and the unknown impact of Eurozone monetary policy continues to provide uncertainty on the levels of capital expenditures, unemployment levels and consumer and business confidence, which could adversely affect demand for products, systems and services offered by the company. The general global political environment remains volatile for the business environment due to a rise in political conflicts and terrorism. Numerous other factors, such as sustained lower levels

of energy and raw material prices, regional political conflicts in the Middle East, Russia and Ukraine and other regions, as well as large-scale (in)voluntary migration and profound social instability could continue to impact macroeconomic factors and the international capital and credit markets.

Economic growth and the business environment may be adversely affected by the UK exit from the Eurozone (Brexit). The UK is scheduled to leave the EU on March 29, 2019 and the resulting nature of the trading and legal arrangements is not yet fully known. The potential outcomes are wide ranging from limited changes of the status quo to a 'Hard Brexit'. While a final agreement between the EU and UK has yet to be reached, the company is preparing for the moment that Brexit comes into effect in order to maintain business continuity in the UK and reduce any adverse impact on our customers. We are looking at all product flows from outside Europe to a direct-to-UK flow to avoid a potential disruption and double taxation impacts. In addition, we are looking to product flows to within Europe where practical, to avoid potential disruption and potential bottleneck entry points. Finally, we are working to maintain our Authorised Economic Operator (AEO) status for supply chain security and engaging a third party customs broker to enable a scalable customs clearance service. We have also done a preliminary assessment on impact on the balance sheet. Various tax reliefs and exemptions that are currently available for transactions between UK and other EU member states may cease to apply but the company does not have material exposure from deferred UK tax balances. Brexit may demand that Signify needs to consider its impact on impairments of assets or cashflow-generating units. Based on current estimates Signify assesses the risk of impairment to be immaterial.

Economic and political uncertainty may have a material adverse impact on the company's financial condition or results of operations and are expected to become more prominent. These risks may also make it more difficult for the company to budget and forecast accurately. The company may encounter difficulty in planning and managing operations due to the lack of adequate infrastructure and unfavorable political factors, including unexpected legal or regulatory changes such as foreign exchange import or export controls, import duties, nationalization of assets or restrictions on the repatriation of returns from foreign investments.

The company may be unable to adapt swiftly to changes in industry or market circumstances, which could have a material adverse impact on its financial condition and operating results.

Fundamental shifts in the industry, such as the ongoing transition from traditional to light-emitting diode (LED) lighting and faster adoption of lighting systems and services based on LED lighting technologies may drastically change the business environment. This rapid technological change has had, and is expected to continue to have, significant effects on the company's business model. It is difficult to predict the extent and speed of the transition from conventional to LED lighting technologies and the significant price erosion which characterizes the market for LED lamps.

In addition, the LED lamps market may experience accelerated saturation, shifting faster to integrated luminaries.
The transition to LED lighting due to characteristics of the business including competition, technology and lower entry barriers, could have a material adverse effect on the company's growth ambitions, financial condition and operating results.

The company's overall performance in the coming years is dependent on realizing its growth ambitions in growth geographies.

Growth geographies are increasingly important in the global market. In addition, Asia is an important production, sourcing and design center for the company. The company faces strong competition to attract the best talent in tight labor markets and intense competition from local companies as well as other global players for market share in growth geographies. The company needs to maintain and grow its position in growth geographies, invest in local talent, understand developments in end-user preferences and localize the portfolio in order to stay competitive. The company's failure to achieve these could have a material adverse effect on growth ambitions, financial condition and operating result.
The growth ambitions of the company may be adversely affected by economic volatility inherent in growth geographies and the impact of changes in macroeconomic circumstances on growth economies.

The general lighting market in which the company operates is highly competitive

The general lighting market in which the company operates is highly competitive as it, among other reasons, includes other traditional global lighting manufacturers as well as new entrants to the LED lighting market. The competitive landscape of the general lighting market in which the company operates varies along the value chain, which consists of LED components, conventional and LED lamps, conventional and LED electronics, and conventional and LED luminaires, which are complemented by the lighting systems and lighting services segments. The increasing penetration of LED lighting products has resulted in product lifecycles becoming shorter, has emphasized the need for continuous innovation and, as new technologies evolve, has provided entry points for new competitors and opportunities for rapid market share shifts. The growth in the market for LED lighting technologies has encouraged new competitors (particularly from Asia) to enter the market for LED lighting products. As a result, some of the company's competitors are large, sophisticated and well-capitalized companies with significant resources, while the company also faces competition from new entrants such as start-ups and other companies that target only a certain product (range) or limited geographic area. To the extent the company is unable to successfully

address competition in some or all of its market segments, sales of the company's products will be negatively impacted, which may have a material adverse effect on the business, results of operations, financial condition and prospects of the company.

Intellectual property rights of the company are subject to litigation, which could have considerable impact on financial conditions and operating results.

To enforce its intellectual property rights, the company may initiate litigation against third parties, which may result in counter claims, considerable costs and damage to these rights. Activities of the company may be covered by third party intellectual property rights that may be unavailable or available only on unfavorable terms.

Operational risks

The company has realized and expects to continue to achieve further cost savings, to maintain or improve profitability margins and cash generation. Its ability to continue implementing cost-saving initiatives may not be successful and could have an adverse effect on the company's financial condition and operating result.

The company has previously implemented and is currently implementing certain business transformation programs intended to ensure sustainable performance by transforming processes, operations, organization or culture, particularly cost-saving initiatives for non-manufacturing costs. The company's past and current business transformation programs have been and continue to be costly, and the company is exposed to potential expenses in connection with its current and future business transformation programs, as well as the risk that these programs may not be successfully implemented or continued and may not improve the overall performance of the company's business.

Executing the company's idea-to-market processes in a suboptimal way could hamper the company's profitable growth ambitions.

Failing to execute the company's improved systems and product creation process with even more rigor and discipline, could put at risk lower cost, timely delivery and the upgrading of customer service levels to create sustainable competitive advantages. Measuring process performance triggering continuous process improvements, is essential. Also, failure to put more emphasis on the ability to capture end-user insights in a timely manner, and structurally feed them into our innovation funnel, could impact our ability to launch the right products and systems at the right time.

The emergence of new low-cost competitors further underlines the importance of improvements in the product creation process. The success of new systems and product creation, however, depends on a number of factors, such as the availability of products in the right quantities and at appropriate costs to meet anticipated demand, and the risk that new products and services may have quality or other defects in the early stages of introduction.

Accordingly, the company cannot determine in advance the ultimate effect that new systems and product creations will have on its financial condition and operating results. If the company fails to accelerate its innovation-to-market processes, and fails to ensure that end-user insights are fully captured and translated into systems and product creations that improve product mix and consequently contribution, it may face an erosion of its market share and competitiveness, which could have an adverse material effect on its financial condition and operating results.

If the company is unable to ensure effective supply chain management, for example facing an interruption of its supply chain, including the inability of third parties to deliver parts, components and services on time, and if it is subject to rising raw material prices, it may be unable to sustain its competitiveness in its markets.

The company is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual/multiple sourcing strategies where possible. This strategy requires close cooperation with suppliers to enhance, among other things, time to market and quality. In addition, the company is continuing initiatives to reduce assets through outsourcing. These processes may result in increased dependency on external suppliers and providers. Although the company works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to timely replace a supplier that is not able to meet its demand.

The company depends on external suppliers for certain raw materials (e.g., rare earth metals, copper, phosphor, steel, aluminum, noble gases and oil-related products) and critical components. Market prices for raw materials are subject to significant volatility. During periods of increasing costs of raw materials, the company may not be able to compensate for cost increases through productivity improvements or passing cost increases on to customers. By contrast, in times of falling prices for raw materials, the company may not fully benefit from such price decreases, for example, because the company attempts to reduce the risk of rising raw material prices through long-term contracting. A general shortage of raw materials, including as a result of unforeseen natural disasters, may also result in increases in market prices and potential disruption to production. Any failure by the company to effectively address rising prices or shortages of raw materials or critical components may have a material adverse effect on the business, results of operations, financial condition and prospects of the company.

The company observes a global increase in IT security threats and higher levels of sophistication in computer crime, posing a risk to the confidentiality, availability and integrity of data and information.

The global increase in security threats and higher levels of professionalism in computer crime have increased the importance of effective IT security measures, including proper identity management processes to protect against unauthorized systems access. Nevertheless, given the very fast pace of technological change, the company's systems, networks, products, solutions and services remain potentially vulnerable to attacks, which could potentially lead to the leakage of confidential information, improper use of its systems and networks or defective products, which could, in turn, materially adversely affect the company's financial condition and operating results.
The objectives of these cyber-attacks vary widely and may include, among other things, disruptions of operations, including provision of services to customers or theft of intellectual property or other sensitive information belonging to the company or its business partners. Successful cyber-attacks may result in substantial costs and other negative consequences, which may include, but are not limited to, lost revenues, reputational damage, remediation costs, and other liabilities to customers and partners. Enhanced protection measures can involve significant costs. Although the company has experienced cyber-attacks, to date, it has not incurred any significant damage, nor significant monetary cost in taking corrective action. However, there can be no assurance that in the future the company will be as successful in avoiding damage from cyber-attacks. Additionally, successful outsourcing of business processes is highly dependent on secure and well-controlled IT systems.

The company sets high-quality standards for its products, but it is possible that products may contain defects or otherwise not perform as expected. Quality defects may reduce sales, result in costs associated with warranty or product liability claims or require recall of affected items.

Manufacturing of the company's products involves complex processes, and defects might occur in the company's products.
In addition, it is possible that certain of the company's products may not perform as expected. These defects or shortfalls may cause the company to incur significant warranty, support and replacement costs.

Furthermore, the company may become subject to actions by regulatory authorities. These actions may result in fines or costs incurred in connection with product recalls or the defense of such actions. Costs incurred in conducting recalls and exchanging defective or non-performing products may significantly exceed the cost of the product.

Additionally, failures or malfunctions of the company's products may lead to claims for property damage and personal injury.

In particular, the company has on occasion been put on notice and may become subject to liability claims by individual claimants or their insurers when fires may have been related to products manufactured and/or marketed by the company. The company, on the same basis as other lamp and luminaire manufacturers, expects that it will continue to be subject to legal proceedings seeking to hold the company liable for property damage and personal injury resulting from fires alleged to have been caused by the failure or malfunction of products manufactured and/or marketed by the company.

Reputational and adverse effects on business due to activities in Environment, Health & Safety or individual behavior

The company is exposed to developments of an environmental or social nature which could affect its reputation. These may be connected to the behavior of individual employees or suppliers or could relate to adherence to regulations related to labor, health and safety, environment or chemical management. Reputational damage could materially impact the company's financial condition and operating results.

Diversity in information technology (IT) could result in ineffective or inefficient business management. IT outsourcing and off-shoring strategies could result in complexities in service delivery and contract management.

The company is engaged in a continuous drive to create a more open, standardized and consequently, more cost-effective IT landscape. This is leading to an approach involving further outsourcing, off-shoring, commoditization and ongoing reduction in the number of IT systems. This could introduce additional risk with regard to the delivery of IT services, the availability of IT systems and the scope and nature of the functionality offered by IT systems. Also, the all pervasiveness and availability of IT solutions crosses business, social, geographical and technical boundaries and may not always be under control of enterprise IT.

The company is dependent on its personnel for leadership and specialized skills. As a result, the loss of its ability to attract and retain talented personnel would have an adverse effect on its business.

The attraction and retention of talented employees is critical to the company's success. This is particularly valid for competence in the areas of digital, internet of things, end-user sales and marketing. The loss of specialized skills could also result in business interruptions. It requires focused effort to constantly safeguard that the company will continue to be successful in attracting and retaining the highly-qualified employees and key personnel needed in the future.

The company will need to implement new brand names in the marketplace in the future, when the use of Philips brand is terminated. Inability to establish a new corporate and brand identity would have an adverse effect on its financial condition and operating results.

Following the separation from Royal Philips, the company has secured the right to use the Philips company name and a license to use the Philips brand for a limited period of time and under certain conditions.
The company may use the Philips brand name for an initial period of ten years from February 2016, which term may be extended with two periods of five years if certain financial targets and other conditions are met. The company also has the right to use the Philips company name for a period of 18 months after the date that it is no longer controlled by Royal Philips.

When the right of use or license is terminated, including at the end of its respective term, the company will need to spend significant time, effort and resources to establish a new company and brand name in the marketplace. The company cannot guarantee that this effort will ultimately be successful. If the company's efforts to establish a new corporate and brand identity are unsuccessful, its financial condition and operating results will be materially adversely affected.

Signify is exposed to risks that could cause direct damage to assets and indirect damage from supply chain disruption, impacting its financial condition and operating results.

The company's global operations are subject to the risk of natural disasters, such as earthquakes, typhoons, fires and floods. It is widely recognized that continued emission of greenhouse gases will cause further warming of the earth and that warming above 2° Celsius (2°C), relative to the pre-industrial period, could result in increased severity of extreme weather events such as cyclones and floods. Additionally, global warming is expected to lead to increased drought and the expansion of dry areas. A number of Signify's production facilities are located in regions with a risk of water scarcity.
The abovementioned threats pose risks for the functioning of Signify's production, financial condition and operating results.

Large disasters, terrorist attacks, riots and civil commotion or other casualty events may disrupt operations. A catastrophic loss of lives, businesses and infrastructure may have an indirect impact on the company by affecting its employees, customers, business partners and suppliers, and may consequently affect production, sourcing and reduce the demand for its products.
In addition, risks may not be insured, or the company's insurance cover may not protect it against all damages or related business interruptions resulting from the events described above. With or without relevant insurance coverage, damage to any of its offices, branches, plants or distribution networks or to third parties (e.g., suppliers), due to natural disasters, terrorist attacks or other casualty events, may have a material adverse effect on the company's results of operations and financial condition.

Compliance risks

The company's global presence exposes it to regional and local regulatory rules, changes to which may affect the realization of business opportunities and investments in the countries in which the company operates.

The company has established subsidiaries in over 70 countries and is subject to compliance with local laws and regulations. These subsidiaries are also exposed to changes in governmental regulations and enforcement and unfavorable political developments. For example, policy actions in response to the Paris Agreement, which looks to constrain the adverse effects of climate change and policy actions that seek to promote adaptation to climate change. Possible implications include the implementation of carbon-pricing mechanisms to reduce GHG emissions, obligatory shifting of energy use toward lower emission sources, and adopting energy-efficiency solutions.

Based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendation and a scenario analysis reflecting several degrees of global warming, Signify found that most direct financial impact from climate change arises from carbon pricing. Through either cap-and-trade schemes or carbon taxes, carbon pricing is accepted as the policy instrument most likely to be deployed on a global scale. In our analysis, we assumed that additional costs incurred by our suppliers of materials, goods and services would be transferred to us. Considering a 2°C scenario and a global price on carbon of EUR 100 per tonne CO_2-equivalent, Signify would face increased costs due to impact of energy and transportation systems.

The failure to comply with applicable laws and regulations, including as a result of any such changes, may affect the realization of business opportunities or impair the company's local investments. In addition, the effects of policy implementations could result in unforeseeable fluctuations in prices of parts, components, and services from our suppliers and could also lead to supply chain interruptions if suppliers are unable to meet the demands of policy regulations implemented.

The company is exposed to risks of fraud and other misconduct in violation of the GBP and/or applicable laws and regulations and governmental investigation and legal proceedings in relation thereto.

The company has business operations in many countries, including countries that are subject to high(er) corruption risks. The risk is heightened in growth geographies as the legal and regulatory environment is less developed in growth geographies compared to mature geographies. The company's business operations are in both the private

and public sector, with governments or parties affiliated with the government as business partner. The company has a large pool of business partners across the globe, including sales intermediaries, that bring third party risks. Its business activities include high-value projects and engagement in tender processes. Activities such as acquisitions or partnerships such as joint ventures bring heightened liability risks. The company's attempts to realize its growth ambitions could expose it to the risk of non-compliance These are examples of factors that expose the company to risks of fraud (such as bribery or corruption, embezzlement, money laundering) or other illegal conduct, such as violation of applicable competition or export controls laws. The company may be subject to pending or potential future investigations by regulators or legal proceedings that can have a severe impact. Cases of fraud or other non-compliant conduct may lead to significant criminal or administrative penalties, civil claims or other measures, such as withdrawal of licenses or debarment from business. Government investigations could affect the company's business relationships. They can be highly disruptive for the company in terms of costs, resources and impact on business activities. The company's financial condition and operating results could be materially affected by governmental investigations and litigation, as well as any related claims.

The company is involved or may become involved in legal proceedings.

The company is involved or may become involved in legal proceedings, regulatory and other governmental proceedings, relating to such matters as commercial transactions, intellectual property disputes, product warranty claims, property damage and personal injury that were caused or allegedly caused by its products as well as environmental pollution and business conduct rules.

Since the ultimate outcome of asserted claims and proceedings, or the impact of any claims that may be asserted in the future, cannot be predicted with certainty, the company's financial condition and operating results could be affected materially by adverse outcomes.

Please refer to note 27, Contingent liabilities, for additional disclosure relating to specific legal proceedings.

The company is exposed to non-compliance with privacy and data protection and product safety regulations and laws.

The company's brand image and reputation would be adversely impacted by non-compliance with various privacy and data protection, as well as product regulations and laws. In light of the company's system solution strategy, data privacy and data protection laws are increasingly important. The company is also exposed to the risk that its products, including components or materials procured from suppliers, may prove to be non-compliant with safety laws or regulations, such as those pertaining to substances or collection and recycling requirements. Such non-compliance could result in a ban on the sale or use of these products.

Financial risks

The company is exposed to a variety of treasury risks and other financial risks including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risk.

Negative developments impacting the bank and global liquidity markets could affect the ability of the company to raise or re-finance debt or could lead to significant increases in the cost of such borrowing in the future. If Signify would obtain a public credit rating in the future and if the markets expect a downgrade or downgrades by the rating agencies or if such a downgrade would take place, this could increase the cost of borrowing, reduce our potential investor base and adversely affect our business.

The company has operations in more than 70 countries and earnings from over 140 countries and are therefore exposed to fluctuations in exchange rates of foreign currencies against the euro, the company's reporting currency. The company's sales are sensitive, in particular, to movements in the US dollar, Chinese renminbi and a wide range of other currencies from developed and emerging markets. However, the company's sourcing and manufacturing spend is concentrated in the Eurozone, US and China. The net (revenues less spend) sensitivity of income from operations to US dollar (and US dollar linked currencies) and Chinese renminbi is most significant.

The credit risk of financial and non-financial counterparties, with outstanding payment obligations, creates exposure for the company, particularly in relation to accounts receivable with customers and liquid assets, fair values of derivatives and insurance receivables contracts with financial counterparties. A default by counterparties in such transactions could have a material adverse effect on the company's financial condition and operating results. Negative (expected) developments on the credit worthiness of Signify now and/or in the future could adversely affect our business leading to higher costs.

The company's supply chain is exposed to fluctuations in energy and raw material prices. Commodities, such as oil and rare earth metals are subject to volatile markets and significant price increases from time to time. If the company is not able to compensate for, or timely pass on, its increased costs to customers, such price increases could have an adverse impact on its financial condition and operating results.

The company is exposed to interest rate risk, particularly in relation to its debt position; this risk can take the form of both fair value and cash flow risk. Failure to effectively hedge this risk could impact the company's financial condition and operating results.

For further analysis, please refer to note 31, Details of treasury and other financial risks.

The company is exposed to various tax risks and uncertainties which could impact the local tax results.

The company is exposed to a number of different tax uncertainties, which could result in double taxation, penalties and interest payments. The company typically sees tax risks and uncertainties in the following fields:

- transfer pricing with regard to intercompany cross-border deliveries of goods and services;
- tax losses and tax credits carried forward
- permanent establishments; and
- potential changes in tax law that could result in higher tax expense and payments.

All these factors could adversely affect the company's financial condition and operating results.

In the field of transfer pricing, the company is closely monitoring the OECD and Base Erosion & Profit Shifting developments in order to be compliant with changing local/ international tax laws and regulations. The company already reports income in the countries where the value is created, in accordance with internationally accepted standards and applying the arm's length principle.

In the field of tax losses and tax credits carried forward, the value of these tax attributes is subject to having sufficient taxable income available within the loss-carryforward period, and also to having sufficient taxable income within the foreseeable future in case of losses carried forward with an indefinite term.

The ultimate realization of the company's deferred tax assets, including tax losses and credits carried forward, is dependent upon the generation of future taxable income in the countries where the temporary differences, unused tax losses and unused tax credits were incurred and during the periods in which the deferred tax assets become deductible.

Additionally, in certain instances, realization of such deferred tax assets is dependent upon the successful execution of tax planning strategies. Accordingly, there can be no absolute assurance that all (net) tax losses and credits carried forward will be realized.

For further details, please refer to the tax risks paragraph in note 12, Income taxes.

Changes to taxation or the interpretation or application of tax laws could have an adverse impact on the company's results of operations and financial condition.

The company's business is subject to various taxes in the Netherlands and elsewhere as it operates on a global basis. The various taxes to which the company is subject include, among others, corporate income tax, regional trade tax, value added tax (VAT), excise duty, registration tax and other direct and indirect taxes. This exposes the company to the risk that the overall tax burden that it suffers may increase in the future. Also, as a global business, the company's effective average tax rate from period to period will be affected by many factors, including changes in tax legislation, global mix of earnings, the tax characteristics of the company's income, the timing and recognition of goodwill impairments, acquisitions and dispositions and adjustments to the company's reserves related to uncertain tax positions.

Changes in tax laws or regulations or in the position of the relevant tax authorities regarding the application, administration or interpretation of these laws or regulations, particularly if applied retrospectively, could have negative effects on the company's current business model and have a material adverse effect on the company's operating results, business and financial condition. In addition, tax laws are complex and subject to subjective evaluations and interpretative decisions, and the company will periodically be subject to tax audits aimed at assessing its compliance with direct and indirect taxes. The tax authorities may not agree with the company's interpretations of, or with the positions the company has taken or intends to take on, tax laws applicable to its ordinary activities and extraordinary transactions. In case of challenges by the tax authorities to the company's interpretations, the company could face long tax proceedings that could result in the payment of penalties and have a material adverse effect on the company's operating results, business and financial condition.

The company has defined-benefit and other post-employment benefit plans such as retirement plans in several countries. The funding level and the cost of maintaining these plans are influenced by movements in financial markets and demographic developments, creating volatility in the company's financials.

A significant number of (former) employees are covered by defined-benefit post-employment benefit plans. The accounting for such plans requires management to make estimates on assumptions, such as discount rates, inflation, longevity, expected cost of medical care and expected rates of compensation. Actual experience differing from these assumptions and adjustments of these assumptions can have a significant impact on the defined benefit obligation and net interest cost. A negative performance of the financial markets could have a material impact on the market value of the plan assets and therefore also on the net liability, cash funding requirements and net interest cost of funded post-employment benefit plans.

13 Statement of the Board of Management

We have 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, and based on 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 Business Group, Market and Function Audit Committees are integral parts of the company's risk management approach. On the basis thereof, we confirm that:

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

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

February 26, 2019

Board of Management
Eric Rondolat
Stéphane Rougeot
René van Schooten

Corporate statements

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14 Consolidated financial statements

Introduction

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

All standards and interpretations issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee effective 2018 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, Our strategic focus
- 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
- 9, Remuneration report
- 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
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- 19, Definitions and abbreviations
- 20, Forward-looking statements and other information

form the management report within the meaning of section 2:391 of the Dutch Civil Code.

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

Ernst & Young Accountants LLP has issued a Combined 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 statements of income

Consolidated statements of income
in mEUR unless otherwise stated
For the years ended December 31

Note		2017	2018
6	Sales	6,965	6,358
	Cost of sales [1]	(4,262)	(3,976)
	Gross margin [1]	**2,704**	**2,382**
	Selling, general and administrative expenses [1] [2]	(1,954)	(1,675)
	Research and development expenses [1]	(362)	(312)
	Impairment of goodwill	(1)	-
10	Other business income	72	32
10	Other business expenses	(18)	(17)
5	**Income from operations**	**441**	**410**
11	Financial income	8	20
11	Financial expenses	(51)	(61)
	Results relating to investments in associates	-	(2)
	Income before taxes	**398**	**367**
12	Income tax expense	(117)	(106)
	Net income	**281**	**261**
	Attribution of net income for the period:		
	Net income (loss) attributable to shareholders of Signify N.V.	294	263
	Net income (loss) attributable to non-controlling interests	(12)	(2)
13	**Earnings per common share attributable to shareholders**		
	Weighted average number of ordinary shares outstanding used for calculation (in thousands):		
	• Basic	143,778	134,306
	• Diluted	144,202	134,672
	Net income attributable to shareholders per ordinary share in EUR:		
	• Basic	2.04	1.95
	• Diluted	2.04	1.95

[1] Prior year has been restated after changes in business portfolio and allocation methods.
[2] Selling, general and administrative expenses were previously presented in separate lines. For more information see note 2, Significant accounting policies.

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

14.2 Consolidated statements of comprehensive income

Consolidated statements of comprehensive income in mEUR
For the years ended December 31

	2017	2018
Net income for the period	**281**	**261**
Pensions and other post-employment plans:		
• Remeasurements	3	(10)
• Income tax effect on remeasurements	(2)	1
Total of items that will not be reclassified to profit or loss	**1**	**(9)**
Currency translation differences:		
• Net current period change, before tax	(289)	61
• Income tax effect	-	-
Cash flow hedges:		
• Net current period change, before tax	(3)	(11)
• Income tax effect	-	1
Total of items that are or may be reclassified to profit or loss	**(292)**	**51**
Other comprehensive income (loss)	**(291)**	**42**
Total comprehensive income (loss)	**(10)**	**303**
Total comprehensive income (loss) attributable to:		
• Shareholders of Signify N.V.	14	301
• Non-controlling interests	(24)	2

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

14.3 Consolidated balance sheets

Consolidated balance sheets
in mEUR
As of December 31

Note			2017		2018
	Non-current assets				
3, 14	Property, plant and equipment				
	• At cost	2,333		2,230	
	• Less accumulated depreciation	(1,841)		(1,798)	
			492		431
3, 15	Goodwill		1,694		1,771
3, 16	Intangible assets, excluding goodwill				
	• At cost	2,018		2,065	
	• Less accumulated amortization	(1,455)		(1,572)	
			562		493
	Non-current receivables		49		38
4	Investments in associates		21		11
32	Other non-current financial assets		12		20
12	Deferred tax assets		440		399
	Other non-current assets		35		49
	Total non-current assets		**3,306**		**3,211**
	Current assets				
17	Inventories		924		878
	Current financial assets		0		4
18	Other current assets		77		107
32	Derivative financial assets		16		28
12	Income tax receivable		39		35
28	Receivables:				
19	• Accounts receivable	1,311		1,167	
	• Other current receivables	62		64	
	Receivables		1,373		1,231
	Assets classified as held for sale		1		9
31	Cash and cash equivalents		942		676
	Total current assets		**3,372**		**2,969**
	Total assets		**6,678**		**6,181**

14.3 Consolidated balance sheets (continued)

Note			2017		2018
	Equity				
20	Share capital	1		1	
	Share premium	2,163		2,179	
	Retained earnings	287		(37)	
	Currency translation differences	(87)		(29)	
	Cash flow hedges	1		(9)	
	Treasury shares	(124)		(65)	
			2,242		2,041
4	Non-controlling interests		79		78
	Total equity		**2,321**		**2,119**
	Non-current liabilities				
21	Long-term debt		1,170		1,187
22	Long-term provisions		777		712
12	Deferred tax liabilities		27		19
24	Other non-current liabilities		167		173
	Total non-current liabilities		**2,140**		**2,091**
	Current liabilities				
21	Short-term debt		140		78
32	Derivative financial liabilities		8		22
12	Income tax payable		79		15
26, 28	Accounts and notes payable		1,001		953
25	Accrued liabilities		475		444
22	Short-term provisions		204		168
	Liabilities directly associated with assets classified held for sale		-		0
25	Other current liabilities		309		288
	Total current liabilities		**2,216**		**1,970**
	Total liabilities and total equity		**6,678**		**6,181**

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

14.4 Consolidated statements of cash flows

Consolidated statements of cash flows
in mEUR
For the years ended December 31

	2017	2018
Cash flows from operating activities		
Net income (loss)	281	261
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	578	547
• Depreciation, amortization and impairment of non-financial assets	286	231
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	-	2
• Net gain on sale of assets	(53)	(8)
• Interest income	(7)	(16)
• Interest expense on debt, borrowings and other liabilities	24	31
• Income tax expense	117	106
• Additions to (releases of) provisions	201	170
• Other items	10	31
Decrease (increase) in working capital:	(33)	8
• Decrease (increase) in receivables	97	113
• Decrease (increase) in inventories	(124)	43
• Increase (decrease) in accounts payable	55	(54)
• Increase (decrease) in other current assets, accrued and other current liabilities	(61)	(95)
Increase (decrease) in non-current receivables, other assets and other liabilities	7	(3)
Utilizations of provisions	(282)	(286)
Interest received (paid)	(15)	(23)
Income taxes paid	(101)	(123)
Net cash provided by (used for) operating activities [1]	**435**	**381**
Cash flows from investing activities		
Net capital expenditures:	(31)	(75)
• Additions of intangible assets	(20)	(26)
• Capital expenditures on property, plant and equipment	(76)	(57)
• Proceeds from disposal of property, plant and equipment	64	8
Net proceeds from (cash used for) derivatives and current financial assets	7	(4)
Proceeds from other non-current financial assets	3	2
Purchases of other non-current financial assets	(5)	(11)
Purchases of businesses, net of cash acquired	(3)	(7)
Proceeds from sale of interests in businesses, net of cash disposed of	4	5
Net cash provided by (used for) investing activities	**(26)**	**(90)**

14.4 Consolidated statements of cash flows (continued)

		2017	2018
	Cash flows from financing activities		
	Funding by (distribution to) Royal Philips	3	(0)
	Dividend paid	(158)	(171)
21	Proceeds from issuance (payments) of debt	(22)	(59)
	Purchase of treasury shares	(307)	(324)
	Net cash provided by (used for) financing activities	**(484)**	**(554)**
	Net cash provided by (used for) operations	**(75)**	**(263)**
	Effect of changes in exchange rates on cash and cash equivalents and bank overdrafts	(39)	2
	Cash and cash equivalents and bank overdrafts at the beginning of the period	1,040	925
31	**Cash and cash equivalents and bank overdrafts at the end of the period**	**925**	**664**

[1] Presentation of cash flow from operating activities has been revised. For further information, refer to note 2, Significant accounting policies.

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

14.5 Consolidated statements of changes in equity

Consolidated statements of changes in equity
in mEUR

	Share capital	Share premium	Retained earnings	Currency translation differences	Cash flow hedges	Treasury shares	Total shareholders' equity	Non-controlling interests	Equity
Balance as of January 1, 2017	**2**	**2,369**	**139**	**190**	**4**	**-**	**2,704**	**104**	**2,808**
Net income	-	-	294	-	-	-	294	(12)	281
Other comprehensive income (loss)	-	-	1	(277)	(3)	-	(279)	(12)	(291)
Total comprehensive income (loss)	**-**	**-**	**295**	**(277)**	**(3)**	**-**	**14**	**(24)**	**(10)**
Movement in non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Dividend distributed	-	(11)	(146)	-	-	-	(157)	-	(157)
Purchase of treasury shares	-	-	-	-	-	(307)	(307)	-	(307)
Cancellation of treasury shares	(0)	(183)	-	-	-	183	-	-	-
Re-issuance of treasury shares	-	(1)	-	-	-	1	-	-	-
Share-based compensation plans	-	10	-	-	-	-	10	-	10
Income tax share-based compensation plans	-	2	-	-	-	-	2	-	2
Funding by (distribution to) Royal Philips [1]	-	(24)	-	-	-	-	(24)	-	(24)
Balance as of December 31, 2017	**1**	**2,163**	**287**	**(87)**	**1**	**(124)**	**2,242**	**79**	**2,321**
Balance as of January 1, 2018	**1**	**2,163**	**287**	**(87)**	**1**	**(124)**	**2,242**	**79**	**2,321**
Adoption of IFRS 9 (net of tax) [2]	-	-	(11)	-	-	-	(11)	(3)	(14)
Restated balance as of January 1, 2018	**1**	**2,163**	**276**	**(87)**	**1**	**(124)**	**2,231**	**76**	**2,307**
Net income	-	-	263	-	-	-	263	(2)	261
Other comprehensive income (loss)	-	-	(9)	58	(10)	-	39	3	42
Total comprehensive income (loss)	**-**	**-**	**253**	**58**	**(10)**	**-**	**301**	**2**	**303**
Movement in non-controlling interests	-	-	-	-	-	-	-	1	1
Dividend distributed	-	-	(171)	-	-	-	(171)	(1)	(171)
Purchase of treasury shares	-	-	(15)	-	-	(324)	(339)	-	(339)
Cancellation of treasury shares	(0)	-	(380)	-	-	380	-	-	-
Re-issuance of treasury shares	-	(2)	(0)	-	-	2	-	-	-
Share-based compensation plans	-	20	-	-	-	-	20	-	20
Funding by (distribution to) Royal Philips	-	(1)	-	-	-	-	(1)	-	(1)
Balance as of December 31, 2018	**1**	**2,179**	**(37)**	**(29)**	**(9)**	**(65)**	**2,041**	**78**	**2,119**

[1] Includes a negative adjustment of EUR 30 million related to the re-measurement of deferred taxes following the reduction of the US federal income tax rate.
[2] Refer to note 2, Significant accounting policies.

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

14.6 Notes

1 Basis of preparation

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

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

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

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

Separation from Royal Philips

On February 1, 2016, Koninklijke Philips N.V. and Philips Lighting Holding B.V. entered into the Separation Agreement and a set of ancillary agreements, together effectuating the Separation of their respective businesses and providing a framework for the relationship between Royal Philips and Philips Lighting thereafter (the ‘Separation’). An addendum to the Separation Agreement was entered into on May 4, 2016. Furthermore, the Separation Agreement and ancillary agreements were assigned to the Company prior to May 31, 2016.

The Separation Agreement contains the allocation basis for assets, liabilities, employees and contracts of the former Royal Philips between the new Royal Philips and Philips Lighting. The assets and liabilities that have been allocated to Philips Lighting have been transferred to Philips Lighting either by way of an asset transfer, demerger, contribution or indirectly through a transfer of the shares in the legal entity in which the relevant asset or liability resided. Conversely, legal entities forming part of Philips Lighting have transferred certain assets and liabilities that were allocated to Royal Philips, to subsidiaries of Royal Philips. Assets and liabilities have been transferred between Royal Philips and Philips Lighting on an ‘as is’ basis (i.e. net book value) and on a going concern basis.

The Separation was substantially completed on February 1, 2016 with the exception of certain delayed transfers which were completed by May 31, 2016. The excess between the fair value and the carrying value of the net assets transferred, net of tax, is recorded as an equity contribution from Royal Philips, as this was a transaction under common control.

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 have been prepared under the historical cost convention, unless otherwise indicated. All amounts are in millions of euros unless otherwise stated. Due to rounding, amounts may not add up to totals provided.

2 Significant accounting policies

Critical accounting judgements and key sources of estimation uncertainty

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

These estimates and judgements 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 judgements 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 judgements and estimates are made are goodwill, deferred tax asset recoverability, revenue recognition, impairments, provisions, employee benefit obligations, inventory valuation and obsolescence provision, estimation of allowances for doubtful accounts as well as fair value of derivatives and other financial instruments. For further discussion on these significant judgements and estimates, reference is made to the respective accounting policies and notes within these Consolidated financial statements that relate to the above topics.

Changes in accounting policy- IFRS accounting standards adopted as from 2018

A number of new standards, interpretations and amendments to existing standards are mandatory for the Company beginning on or after January 1, 2018 or later periods. Those which may be the most relevant to the Company are set out below (IFRS 15 and IFRS 9). Changes to other standards, following from amendments and the annual improvement cycles, did not have a material impact on the Consolidated financial statements.

IFRS 15 Revenue from contracts with customers

Transition and impact assessment

IFRS 15 establishes a comprehensive framework for determining and the amount and the moment when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Signify has adopted IFRS 15 using the cumulative effect method. Accordingly, the information presented for 2017 has not been restated. Under this method, the cumulative effect of initially applying this standard is accounted for as an adjustment to the opening balance of equity at the date of initial application (i.e. January 1, 2018). The impact of initial application is not material to the primary financial statements (consolidated statements of income, comprehensive income, balance sheets, cash flows and equity) and therefore no opening balance adjustment was recorded. Signify applied the new standard only to contracts that were not considered completed contracts at the date of initial application. In addition, the disclosure requirements in IFRS 15 have not been applied to comparative information.

Following the implementation of IFRS 15, the Company changed the presentation of certain unbilled positions that qualify as contract assets under the new standard. While previously these positions were recorded under receivables, following the implementation of IFRS 15 these positions are now recorded under other assets. There was no other material impact on the consolidated financial statements for the year ended December 31, 2018, from implementing IFRS 15. In other words, had Signify not implemented IFRS 15 as of January 1, 2018, these consolidated financial statements would not have been materially different.

Revenue recognition accounting policy

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. Examples of delivery conditions are “Free-On-Board point of delivery” and “Costs, Insurance Paid point of delivery”, where the point of delivery may be the shipping warehouse, or any other point of destination as agreed in the contract with the customer.

Revenue is recognized at the amount to which Signify expects to be entitled. The transaction price excludes amounts collected on behalf of third parties, such as sales taxes, as well as payments made to customers when these are not for distinct goods or services.
The transaction price is further adjusted for any significant financing component.
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 that will be granted. The estimate is updated throughout the term of the contract. For products for which a right to return exists during a defined period, revenue is recognized by taking into account the historical pattern of actual returns. Return policies are typically based on customary return arrangements in local markets. In case of a right of return, a refund liability is recorded, similar as was done under previous guidance. In addition, under IFRS 15, a return asset is recognized, representing the right to recover the goods from the customer. The return asset is an adjustment to cost of goods sold of the specific transaction and is initially measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. Although this represents a change from previous guidance, due to limited right of returns granted to date, the impact on Signify's Consolidated financial statements for the year ended December 31, 2018, is not material.

Signify applies the practical expedient not to adjust the transaction price for the effects of a 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 the majority of sales transactions.

Signify offers a range of connected lighting products, for which functionality is partly cloud-enabled. When applying IFRS 15, Signify regards the cloud-enabled services as a separate performance obligation. The transaction price is allocated to the different performance obligation based on the relative stand-alone selling prices. Revenue for the cloud-enabled services is recognized over time when the performance obligation is satisfied. This constitutes a change from previous guidance, whereby the full consideration was recognized as revenue upon the initial sale. The impact of this change on the Consolidated financial statements for the year ended December 31, 2018, is however not material.

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

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. For certain products, customers have the option to purchase an extension of the warranty and/or life-cycle-services. Extended warranty and lifecycle services are generally identified as a separate performance obligation, and the allocated transaction price is recognized ratably over time during the extended warranty- or service period.

Transactions that have multiple promised goods and services mainly occur in parts of business group Professional. For these transactions, Signify accounts for individual goods and services, including any goods or services provided for free, separately in case they are distinct. 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.

When a single contract contains multiple deliverables, for example supply of goods and services, these multiple deliverables may be combined in one or more performance obligations. Performance obligations may be satisfied over time, typically because Signify is creating or enhancing an asset that the customer controls. In limited cases, Signify may also be creating an asset with no alternative use while having an enforceable right to payment for performance to date. In both instances, revenue is recognized over time. This constitutes a change from previous guidance, where for some contracts recognition of revenue was postponed until all promised goods or services under the contract were completed and the customer had accepted delivery. The impact of this change on the Consolidated financial statements for the year ended December 31, 2018, is not material.

Signify may incur costs for obtaining a contract, including payments made to agents that depend on winning the contract. Under IFRS 15, incremental costs of obtaining a contract must be recognized as an asset if the costs are expected to be recovered. Those incremental costs are limited to the costs that Signify would not have incurred if the contract had not been successfully obtained (e.g. success fees paid to agents). Signify applies the practical expedient, 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 as an asset. This is consistent with accounting under previous guidance.

Revenue from royalties generally originates from sales- or usage-based royalties. Under IFRS 15, revenue from sales- or usage-based royalties that are attributable to a license of intellectual property is recognized at the later of when the subsequent sale or usage occurs, and the satisfaction or partial satisfaction of the performance obligation to which some or all of the sales- or usage-based royalty has been allocated. Consequently, Signify generally recognizes revenue from these contracts in line with the occurrence of the related sales or usage. This is consistent with accounting under previous guidance.

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. Contract liabilities consist of deferred revenue and payments received in advance and are recorded under accrued liabilities or other current and non-current liabilities.

IFRS 9 Financial instruments

With the exception of hedge accounting, which was applied prospectively, Signify applied IFRS 9 retrospectively on January 1, 2018 with the practical expedients permitted under the standard. Therefore, comparatives for December 31, 2017 were not restated.

Classification and measurement of financial assets and liabilities

On January 1, 2018 (the date of initial application of IFRS 9), the Company has assessed which business models apply to the financial assets held by Signify and has classified its financial instruments into the appropriate IFRS 9 categories. The IFRS 9 classification requirements had no impact on financial position of Signify as at January 1, 2018 and on the subsequent measurement of financial instruments, except for the described below. The classification depends on the Signify's business model for managing the financial assets and the contractual terms of the cash flows and solely payments of principal and interest (SPPI) test. Signify performed analysis instrument by instrument level, which utilizes contract details, business model and objective of the instrument.

The main categories of financial assets and liabilities under IFRS 9 compare to IAS 39 are as follows:

- Trade and other receivables, loans receivable, held-to maturity investments, trade and other payables, short-term and long-term debt are classified as Financial assets and liabilities at amortized cost as the business model for these instruments is hold-to-collect contractual cash flows;
- Derivatives and financial assets at fair value are classified as Financial assets at fair value via profit and loss (FVPL) as the business model for these instruments is held for trading;
- Available-for-sale equity instruments are classified as Financial assets at fair value via Consolidated statements of 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. Dividends from such investments continue to be recognized in profit or loss as Financial income and expenses when Signify's right to receive payments is established.

Impairment of trade receivables and contract assets

Trade receivables are recognized initially at fair value and 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.

Value allowance for trade and other receivables in prior year was determined utilizing the incurred loss model based on an individual and collective assessment of the collectability of trade and other receivables. The identification of doubtful debtors required the use of judgement and estimates. Value allowances for doubtful accounts receivable were applied to trade and other receivables where events or changes in circumstances indicated that the balances may not be collectible. The allowance for the risk of non-collection of trade receivables considered credit-risk concentration, collective debt risk based on average historical losses and specific circumstances such as serious adverse economic conditions in a certain country or region.

As of January 1, 2018, Signify applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due whereby the lifetime expected credit loss on the receivables is recognized based on a matrix model calculated per country, which utilises historical recoverability data and default probability per country which based on Credit Default Swaps (CDS).

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.

Signify made the following adjustment to the opening balance as at January 1, 2018 due to the adoption of the IFRS 9 expected credit loss model methodology for calculation of the value allowance for trade receivables:

Adjustments IFRS 9 in mEUR

	Accounts receivable	Deferred tax assets	Equity
Balance as of December 31, 2017	**1,311**	**440**	**2,321**
Adjustment (increase / (decrease))	(16)	2	(14)
Balance as at January 1, 2018 after the adoption of IFRS 9	**1,295**	**442**	**2,307**

Impairment of other financial assets

From January 1, 2018, Signify assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. General approach under IFRS 9, which requires to determine impairment amount based on the three stages of credit risk deterioration, was used to determine an impairment for these financial assets. The criteria to pass on to the next stage of the credit deterioration was 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. In prior year the impairment loss for such instruments was calculated using the incurred loss methodology for trade and other receivables described above.

Derivatives and hedge accounting

The foreign currency forwards and swaps in place as at December 31, 2017 qualified as cash flow hedges under IFRS 9. Signify's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges. For foreign currency forwards, Signify only 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 and this did not change due to the adoption of IFRS 9.

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.

Prior to January 1, 2018, Signify formally assessed, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are retrospectively highly effective (80% - 125% ratio) in offsetting changes in fair values or cash flows of hedged items. When it is established that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, Signify discontinued hedge accounting prospectively. As of January 1, 2018, under IFRS 9 Signify replaced the highly effective criteria with a requirement of 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 and only prospective effectiveness test is performed to prove that the hedge is effective. For prospective effectiveness test Signify utilizes the dollar offset method.

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. Signify documents its risk management objective and strategy for undertaking its hedge transactions. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

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 continue 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, instead of re-designation of the hedge relationship as per IAS 39. Gains and losses that were accumulated in equity related to an ineffective portion of hedge, Signify continues to take immediately in the Consolidated statements 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 statements 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 statements 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 statements of income. There was no change to the allocation of these gains and losses between current and prior year.

Policies that are more critical in nature

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the Consolidated statements 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 asset and other tax liabilities

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 judgement 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.

Other tax liabilities include liabilities for uncertain tax positions which are recognized when it is probable that additional tax will be due. Actual tax assessments in relation to these other tax liabilities may significantly deviate from estimates.

In determining the amount of current and deferred income tax, Signify takes into account the impact of other tax liabilities and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes Signify to change its judgement 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.

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

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 judgement is required in determining whether it is probable that an outflow of resources will be required to settle, in which case an accrual for the potential settlement is recognized if this 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 initiated reorganizations which involve the realignment of certain parts of the support, industrial and commercial organization.
  When such reorganizations require discontinuance and/or closure of lines of activities, the anticipated costs of closure are included in the restructuring provisions.
  A liability is recognized for those costs only when Signify has a detailed formal plan for the restructuring and have raised a valid expectation with those affected that they will carry out the restructuring by starting to implement the plan or announcing its main features to

those affected by it. Before a provision is established, Signify recognizes any impairment loss on the assets associated with the restructuring.
- 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 warranties is recognized when the underlying products or services are sold. 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 increases of Other liabilities.
- 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.

Signify has certain off-balance sheet guarantees, environmental remediation and legal proceedings at the reporting dates. Refer to notes 27, Contingent liabilities, and 31, Details of treasury and other risks.

Goodwill

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

Intangible assets other than goodwill

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

Signify expenses all research costs as incurred. 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 statements 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 statements of income on a straight- line basis over the estimated useful lives of the intangible assets.

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. Judgement is required when analyzing impairments triggers and tests of goodwill and intangible assets. These analyses are based on estimates of future cash flows and discount rates. 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 statements 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 is measured as the present value of future cash flows expected to be generated by the asset.

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

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

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

or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the Consolidated statements of income.

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.

Employee benefits

Post-employment benefit obligations

Post-employment benefits are retirement benefits (such as pensions and lump sum payments on retirement), post-employment life insurance and post-employment medical care. Distinction is being made between defined contribution plans and defined benefit plans. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the Consolidated statements of income in the periods during which services are rendered by employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension asset or liability recognized in the Consolidated balance sheets in respect of defined benefit post- employment plans is the fair value of plan assets less the defined benefit obligation at the balance sheet date. The net pension liability is presented as a long-term provision, no distinction is made for the short-term portion. The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. For plans with a relatively low defined benefit obligation, Signify may decide to calculate the defined benefit obligation with a lower frequency. Assets recognized, are limited to the present value of any reductions in future contributions or any future refunds.

For Signify's major plans, a full discount rate curve of high-quality corporate bonds is used to determine the defined benefit obligation. For obligations denominated in EUR and USD, Aon Hewitt corporate bond curves will be used. The calculation of the defined benefit obligations for the German and US plans are based on the full corporate bond curves. For the other plans, a single point discount rate based on corporate bonds is used. However, for countries without a deep corporate bond market, the discount rate is based on the local sovereign curve and the plan's maturity.

Pension costs in respect of defined benefit post- employment plans primarily represent the increase of the actuarial present value of the obligation for post-employment benefits based on employee service during the year and the interest on the net recognized asset or liability in respect of employee service in previous years.

Re-measurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (excluding interest). Signify recognizes all re-measurements in Other comprehensive income.

Signify recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on settlement is the difference between the defined benefit obligation being settled, as determined on the date of settlement, and the settlement price, including any plan assets transferred and any payments made directly by Signify in connection with the settlement. In this respect, the amount of the plan assets transferred is adjusted for the effect of the asset ceiling. Past service costs following from the introduction of a change to the benefit payable under a plan or a significant reduction of the number of employees covered by a plan (curtailment) are recognized in full in the Consolidated statements of income.

Other long-term 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 statements of income in the period in which they arise.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. 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.

Signify recognizes a liability and an expense for bonuses and other current employee benefits on an accrual basis. Furthermore, a provision is recognized where contractually obliged or where there is a past practice that has created a constructive obligation.

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.

Financial assets and liabilities (no change from the adoption of IFRS 9)

Recognition of financial assets and liabilities

Financial assets and liabilities are recognized initially at fair value when Signify becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial instruments are accounted for at the trade date. Dividend income is recognized when declared and interest income are recognized when they accrue.

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.

Netting of financial assets and liabilities

Signify presents financial assets and financial liabilities on a gross basis as separate line items in the Consolidated balance sheets 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. The right of set-off is available today and not contingent on a future event and it is also legally enforceable for all counterparties in a normal course of business, as well as in the event of default, insolvency or bankruptcy.

Master netting agreements may be entered into when Signify undertakes several financial instrument transactions with a single counterparty. Such an agreement provides for a net settlement of all financial instruments covered by the agreement in the event of default or certain termination events on any of the transactions. A master netting agreement may create a right to offset that becomes enforceable and affects the realization or settlement of individual financial assets and financial liabilities only following a specified termination event. However, if this contractual right is subject to certain limitations then it does not necessarily provide a basis for offsetting unless all offsetting criteria are met.

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 (i.e., removed from the Consolidated statement of financial position) 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 transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Signify could be required to repay.

Debt, trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Debt and trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Financial income

Interest income is recognized on an accrual basis in the Consolidated statements of income, using the effective interest method. Dividend income is recognized in the Consolidated statements of income on the date that Signify's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

Financial guarantees

Signify recognizes a liability at the fair value of the obligation at the inception of a financial guarantee contract. The guarantee is subsequently measured at the higher of the best estimate of the obligation or the amount initially recognized.

Other policies

Basis of consolidation

The Consolidated financial statements comprise the financial statements of Signify N.V. and all subsidiaries that the Company 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. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Business combinations

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

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

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Loss of control

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

Investments in associates

Signify's investments in associates are accounted for using the equity method. Investments in associates are recognized initially at cost.

Investments in associates are those entities in which Signify has significant influence, but no control or joint control, over the financial and operating policies.

Signify's share of the net income of associates are included in Results relating to investments in associates in the Consolidated statements of income, after adjustments to align the accounting policies with those of Signify, from the date that significant influence commences until the date that significant influence ceases.

Non-current 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 represented when a non-current asset is classified as held-for-sale.

Foreign currencies

Foreign currency transactions

The financial statements of all reporting units included in the Consolidated financial statements are measured using the currency of the primary environment in which the reporting unit operates (functional currency). The Euro (EUR) is the presentation currency of Signify. 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 statements of income, except when deferred in Other comprehensive income as qualifying cash flow hedges.

Exchange difference items 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 the Consolidated statements of income.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated to the functional currency using the exchange rate at the date the fair value was determined. Non-monetary assets and liabilities in foreign currencies measured at historical cost are translated using the exchange rate at the transaction date.

Cash flows in foreign currencies have been translated into Euro using the exchange rate at the date of the cash flow.

Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies (see 'Hyperinflationary economies' below). The related income, costs and balance sheet amounts are translated at the foreign exchange rate as at the balance sheet date.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations are translated to euro at exchange rates approximating to the exchange rates ruling at the dates of the transactions.

Foreign currency differences arising on translation of foreign operations into euro are recognized in Other comprehensive income, and presented as part of currency translation differences in Shareholders' equity. If the operation is not a wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to Non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the currency translation differences related to the foreign operation is reclassified to the Consolidated statements of income as part of the gain or loss on disposal. When Signify disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the respective proportion of the cumulative amount is reattributed to Non-controlling interests. When Signify disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the Consolidated statements of income.

Hyperinflationary economies

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

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

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Dividends are recognized as a liability in the period in which they are declared. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized.

As of January 1, 2018 share cancellations are deducted from 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. 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.

Plant and equipment under finance leases and leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. The gain realized on sale and operating leaseback transactions that are concluded based upon market conditions is recognized when control over the asset has been transferred.

Leased assets

Leases in which Signify is the lessee and has substantially all risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The interest element of the finance cost is charged to the Consolidated statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding finance lease obligations, net of finance charges, are included in long and short-term debt.

Leases in which Signify is the lessee and in which substantially all risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases (net of any incentive received from the lessor) are recognized in the Consolidated statements of income on a straight- line basis over the term of the lease.

Share-based compensation expenses

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 29, Share-based compensation.

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

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

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

Royal Philips Long-term Incentive Plan

Until the settlement of the IPO of Signify in 2016, eligible employees of Signify as well as members of the Board of Management participated in grants made under the Royal Philips Long-term Incentive Plan. Those employees remain to participate in the Royal Philips LTI Plan until the shares from the last grant in 2016 will vest in 2019.

The share-based payment plan, for which Royal Philips has the obligations to settle with the equity instruments of Royal Philips, is accounted for in Signify as an equity-settled plan. 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.

Based on the recharge arrangement between Royal Philips and Signify, Royal Philips recharges Signify for an amount equal to the personnel expense calculated in accordance with IFRS 2. The recharge is booked in Equity and offsets the increase booked for the initial booking of the expense. Hence, the net impact on Equity from these bookings is nil.

Consolidated statements of cash flows

The Consolidated statements of cash flows are prepared using the indirect method. Cash flows from derivative instruments that are accounted for as fair value hedges or 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.

Earnings per share

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

Government grants

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

Changes in accounting policies and disclosures

Other changes to financial reporting

On March 21, 2018, the Company provided an Investor Relations notification to explain and show the effect of the changes stated below. The comparative figures for 2017 have been restated in order to align with the changes made.

Presentation of Selling and G&A expenses

The Company has reassessed the presentation of Selling expenses and General and Administrative expenses (G&A) in the income statement as two separate line items and has decided as of January 1, 2018 to present these as a single line item. This presentation aligns with how management is internally budgeting and monitoring its cost base (controllability model) which changed following the split from Royal Philips. In addition, the presentation into one line is applied by many other companies in our industry and will therefore further enhance comparability.

Change in business portfolio and allocation methods

As of January 1, 2018, the Company reports and discusses its financial performance based on the changes in business portfolio and allocation methods to further align the organizational structure with the strategy. The financial impact per segment is disclosed in note 3, Information by segment and main country.

Presentation of consolidated statements of cash flows

The presentation of the Consolidated statements of cash flows has been amended to better correspond to the balance sheet and to further improve transparency on cash flow movements. Impact on the Consolidated statements of cash flows for the year ended December 31, 2017 is stated in the table on the right. Net cash provided by operating activities, investing activities and financing activities did not change.

Changes to presentation of net cash from operating activities in 2017 in mEUR

	Before Restatements	After Restatements
Net income (loss)	281	281
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	397	578
• Depreciation, amortization and impairment of non-financial assets	286	286
• Impairment (reversal) of goodwill, other non-current financial assets and investments in associates	-	-
• Net gain on sale of assets	(53)	(53)
• Interest income	(7)	(7)
• Interest expense on debt, borrowings and other liabilities [1]	41	24
• Income tax expense	117	117
• Additions to (releases of) provisions [2]	-	201
• Other items	14	10
Decrease (increase) in working capital:	(33)	(33)
• Decrease (increase) in receivables [3]	74	97
• Decrease (increase) in inventories	(124)	(124)
• Increase (decrease) in accounts payable [4]	17	55
• Increase (decrease) in other current assets, accrued and other current liabilities [2]	-	(61)
Increase (decrease) in non-current receivables, other assets and other liabilities	7	7
Utilizations of provisions [5]	(101)	(282)
Interest received (paid)	(15)	(15)
Income taxes paid	(101)	(101)
Net cash provided by (used for) operating activities	**435**	**435**

1) Pension interest expense related to non-cash movements in provisions is now presented in the “additions to (releases of) provisions” line.
2) New (additional) lines in the statements of cash flows.
3) Previously named “Decrease (increase) in receivables and other current assets”. This line included movements from other current assets which are now presented in “increase (decrease) in other current assets, accrued and other current liabilities”.
4) Previously named “Increase (decrease) in accounts payable, accrued and other current liabilities”. This line included movements from accrued liabilities and other current liabilities which are now presented in “increase (decrease) in other current assets, accrued and other current liabilities”.
5) Previously named “Increase (decrease) in provisions”. This line included additions and releases of provisions, which are now presented in “additions to (release of) provisions”.

IFRS accounting standards to be adopted as from 2019 and onwards

A number of new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company beginning on or after January 1, 2019 or later periods, and the Company has not early-adopted them. Those which may be the most relevant to the Company are set out below. Changes to other standards, following from amendments and the annual improvement cycles, are not expected to have a material impact on the Company's financial statements.

IFRS 16 Leases

IFRS 16 must be adopted for periods beginning on, or after, January 1, 2019.

The Company identified the operating leases which are expected to have an impact, and these mainly relate to real estate, car fleet and IT. The most significant impact identified is that Signify will recognize assets and liabilities for its operating leases of real estate, while limited exposure is expected from other operating leases.

The Company will apply IFRS 16 using the modified retrospective transition method (also referred to as cumulative effect method) whereby comparative figures are not restated, but instead retained as reported under the previous standards. The cumulative effect of applying IFRS 16 will be accounted for as an adjustment to the opening balance of equity as at the date of initial application (January 1, 2019).

The Company estimates that as at the date of initial application, January 1, 2019, due to the increase in Property, Plant and Equipment with capitalized lease assets, total assets will increase with approximately 4%. Additional lease liabilities are estimating to lead to an increase in total liabilities of approximately 6%. The Company foresees no impact on compliance with debt covenants.

In addition, the Company will no longer recognize provisions for operating leases that it assesses to be onerous, which are currently included in Other provisions.

Following the transition to the new standard, the operating lease expense will be replaced by depreciation, interest and service costs, except for the leases for which either the low value or short-term lease exemptions are applied.

In selecting which practical expedients to apply, the Company has focused on reducing the complexity of implementation. Based on analysis of the options available, the Company will:

- apply the low value lease exemption (mainly laptops)
- apply the short-term lease exemption (some real estate contracts)
- use the transition option for leases with a short remaining contract period
- adjust the right-of-use asset by the amount of any provisions for onerous lease provisions recognized under IAS 37 to approximate impairment

Whilst no significant impact is expected for lessor accounting, the Company is an intermediate lessor for some real estate contracts and on transition, the Company will:

- reassess subleases that were previously classified as operating leases and are ongoing at the date of initial application to determine the classification of these leases under IFRS 16; and
- for subleases that were classified as operating leases under IAS 17, but finance leases under IFRS 16, account for the subleases as a new finance lease entered at the date of initial application.

As disclosed in note 26, Contractual Obligations, of the Consolidated financial statements for the year ended December 31, 2018, Signify identified EUR 285 million (undiscounted) of off-balance operating lease obligations.

3 Information by segment and main country

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

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

Information on income statement by segment in mEUR unless otherwise stated

	Sales [1]	Sales including inter-segment [1]	Depreciation and amortization [2]	EBITA [1][3]	EBITA as a % of sales
2018					
Lamps	1,428	1,438	(37)	270	18.9%
LED	1,812	1,943	(12)	204	11.3%
Professional	2,635	2,639	(44)	208	7.9%
Home	467	469	(10)	(43)	(9.2%)
Other [4]	16	25	(34)	(135)	
Intersegment elimination		(157)			
Signify	**6,358**	**6,358**	**(137)**	**504**	**7.9%**
Amortization [5]				(94)	
Income from operations				**410**	
2017					
Lamps	1,788	1,806	(48)	335	18.7%
LED	1,902	2,025	(13)	187	9.8%
Professional	2,750	2,755	(49)	186	6.8%
Home	508	512	(12)	22	4.4%
Other [4]	18	28	(33)	(159)	
Intersegment elimination		(162)			
Signify	**6,965**	**6,965**	**(156)**	**571**	**8.2%**
Amortization [5]				(130)	
Income from operations				**441**	

1) Prior year has been restated after changes in business portfolio and allocation methods.
2) Excluding amortization and impairments of acquisition related intangible assets and goodwill.
3) Income from operations excluding amortization and impairments of acquisition related intangible assets and goodwill (“EBITA”).
4) Considering the nature of Other, EBITA as a % of sales for Other is not meaningful.
5) Amortization and impairments of acquisition related intangible assets and goodwill.

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.

For further information on disaggregation of sales, refer to note 6, Sales.

As of January 1, 2018, the Company reports and discusses its financial performance based on the business portfolio changes and allocation methods to further align the organizational structure with the strategy.

The financial impact per business group is stated in the table below (for more details refer to note 2, Significant accounting policies):

Changes to financial reporting in 2017 in mEUR

	Reported Sales	Change	Restated Sales	Reported EBITA	Change	Restated EBITA
Lamps	1,820	(32)	1,788	350	(15)	335
LED	1,703	198	1,902	169	17	187
Professional	2,755	(5)	2,750	181	6	186
Home	684	(177)	508	31	(9)	22
Other	3	15	18	(160)	1	(159)
Total	**6,965**	**0**	**6,965**	**571**	**0**	**571**

Sales and tangible and intangible assets are reported based on the country of origin as follows:

Sales, tangible and intangible assets by main countries in mEUR

	Sales		Tangible and intangible assets [1]	
	2017	**2018**	**2017**	**2018**
Netherlands	570	551	129	120
United States	1,613	1,361	1,797	1,803
Germany	480	464	8	6
China	463	441	78	86
India	439	416	19	15
Saudi Arabia	149	129	183	174
Other countries	3,251	2,997	534	490
Total countries	**6,965**	**6,358**	**2,748**	**2,695**

1) Including goodwill.

4 Interests in entities

In this note the nature and risks associated with the Company's interests in its consolidated entities and associates are discussed and the effects of those interests on the company's financial position and financial performance. Interests in entities relate to:

- interests in subsidiaries
- investments in associates

Interests in subsidiaries

Wholly-owned subsidiaries

The Consolidated financial statements comprise the assets and liabilities of approximately 150 legal entities. Set out below is a list of material subsidiaries 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.

Interests in materially wholly-owned subsidiaries in alphabetic order

Legal entity name	Principal country of business
Signify (China) Investment Co., Ltd	China
Signify GmbH	Germany
Signify Holding B.V.	Netherlands
Signify Hong Kong Limited	Hong Kong
Signify Netherlands B.V.	Netherlands
Signify North America Corporation	United States of America
Signify Poland Sp. z o.o.	Poland
Signify Singapore Pte. Ltd.	Singapore

Not wholly-owned subsidiaries

In total, 15 consolidated subsidiaries are not wholly-owned by the company. Among these legal entities is Signify Saudi Arabia created after the acquisition of General Lighting Company (GLC) where the company owns 51% of the voting power and Alliance Holding domiciled in the Kingdom of Saudi Arabia holds the remaining 49%. The sales of this entity represent 2% of the consolidated sales and 0.3% of consolidated cash flow from operations. The non-controlling interest of 49% represents an amount of EUR 76 million as per December 31, 2018 (2017: EUR 78 million).

The minority share of the consolidated company sales, income from operations, net income and cash flow of the remaining not wholly-owned subsidiaries (before any intra-company eliminations) are less than 1% of the consolidated financial data of the company and are not considered material.

Investments in associates

The company has investments in several associates, none of them are regarded as individually material. In aggregate, the carrying amount and the company's share of profit and other comprehensive income of the associates are shown in the Consolidated balance sheets, Consolidated statements of income and Consolidated statements of comprehensive income. Two investments in associates were reclassified to assets held for sale as per December 31, 2018.

Acquisitions

Signify completed two immaterial acquisitions in 2018, one of which was LiteMagic Technologies.

5 Income from operations

Sales and costs by nature

Sales and costs by nature in mEUR

	2017	2018
Sales	6,965	6,358
Cost of Materials used	(2,956)	(2,806)
Employee benefit expenses	(1,987)	(1,734)
Depreciation and amortization	(286)	(231)
Shipping and handling	(236)	(214)
Advertising and promotion	(172)	(156)
Lease expenses	(103)	(101)
Other operational costs	(838)	(721)
Other business income, net	54	15
Income from operations	**441**	**410**

For further information on sales, refer to note 6, Sales.

Cost of materials used represents the inventory recognized in Cost of sales.

For further information on employee benefit expenses, refer to note 7, Employee benefit expenses.

For further information on depreciation and amortization, refer to note 9, Depreciation, amortization and impairment.

Shipping and handling costs are included in the Cost of sales and Selling, general and administrative expenses.

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

Lease expenses include EUR 15 million (2017: EUR 17 million) of other costs, such as fuel and electricity, and taxes to be paid and reimbursed to the lessor.

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, warranty, utilities and repair and maintenance for fixed assets. 2017 included EUR 1 million of goodwill impairment relating to goodwill allocated to divestments of certain operations which met the IFRS 5 criteria of assets held for sale.

For further information on Other business income and expenses, refer to note 10, Other business income (expenses).

The amounts for sales to Royal Philips companies are provided in note 28, Related party transactions.

6 Sales

Disaggregated revenue information

Information on sales per segment is disclosed in note 3, Information by segment and main country. Total sales consist primarily of the sales of goods to customers (2018: 97%, 2017: 96%), for which revenue is generally recognized at the point in time that the customer obtains control of the goods. Mainly in the business group Professional, revenue from the sale of goods may also be recognized over time.

Remaining sales include revenue from services, sales-and usage-based royalties and leases. Revenue from services and sales- and usage-based royalties is generally recognized over time. Revenue from leases mainly relates to finance leases, whereby revenue for the leased assets is recognized at the lease commencement date.

Sales by market:

Sales by market in EURm

	2017	2018
Europe	2,359	2,297
Americas	2,151	1,803
Rest of the world	2,000	1,837
Global business	456	421
Total	**6,965**	**6,358**

Assets and liabilities related to contracts with customers

The company has recognized the following assets and liabilities related to contracts with customers:

Contract balances in EURm

	December 31, 2017	December 31, 2018
Trade receivables	1,311	1,167
Contract assets - current	-	27
Contract assets - non-current	-	10
Deferred income - current	(41)	(54)
Deferred income - non-current	(48)	(49)
Advances from customers	(19)	(16)

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

Contract liabilities consist of deferred income and payments received in advance and are recorded under accrued liabilities or other current and non-current liabilities. Deferred income includes balances related to royalties, extended warranty, life-cycle services as well as other services such as cloud-enabled services. Advances from customers mostly comprises payments received in advance for projects, for which Signify still needs to satisfy (part of) the performance obligations. Out of the total amount of EUR 108 million recognized in contract liabilities at the beginning of the period, EUR 44 million has been recognized as revenue for the period ended December 31, 2018.

The non-current portion of deferred income is recognized over time over the duration of the contract, generally between 1 and 15 years.

The amount of revenue recognized in the period ended December 31, 2018 from performance obligations satisfied (or partially satisfied) in previous periods amounts to EUR 34 million.

7 Employee benefit expenses

Employee benefit expenses included in the Consolidated statements of income consist of the following:

Employee benefit expenses by nature in mEUR

	2017	2018
Salaries and wages	(1,135)	(1,027)
Social securities	(211)	(192)
Post-employment benefits	(93)	(86)
Cost of termination plans	(113)	(97)
Temporary personnel	(102)	(70)
Share-based compensation	(36)	(29)
Other	(296)	(234)
Total	**(1,987)**	**(1,734)**

The employee benefit expenses relate to employees of Signify, with both permanent and temporary contracts. For further information on post-employment benefit costs, refer to note 23, Post-employment benefits. For further information on the remuneration of Key Management, refer to note 30, Information on remuneration.

For further information on the share-based compensation, refer to note 29, Share-based compensation.

Other employee benefit expenses mainly relate to travel expenses, incentives and other personnel related costs.

8 Employees

The average number of full-time equivalent (FTE) employees is summarized as follows:

Employees in FTEs

	2017	2018
Employees	29,202	27,161
Third party workers	4,734	3,442
Total [1]	**33,936**	**30,603**

[1] 3,059 FTEs work in the Netherlands (2017: 3,374); the remaining FTEs work abroad.

The decrease in FTEs reflects the effectuation of the restructuring initiatives from 2017 and 2018.

Employees of Signify are expressed on a full-time equivalent (FTE) basis and correspond to the costs that are reflected in the employee benefit expenses table found in note 7, Employee benefit expenses.

9 Depreciation, amortization and impairment

Depreciation of property, plant and equipment, amortization of intangible assets and impairment of non-financial assets, are as follows:

Depreciation, amortization and impairment in mEUR

	2017	2018
Property, plant and equipment	(126)	(117)
Internal-use software	(12)	(5)
Other intangible assets	(130)	(94)
Development costs	(18)	(15)
Total	**(286)**	**(231)**

Depreciation of property, plant and equipment is primarily included in Cost of sales. 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. Amortization of development costs is included in Research and development expenses.

10 Other business income (expenses)

Other business income (expenses) consists of the following:

Other business income (expenses) in mEUR

	2017	2018
Result on disposal of businesses:		
• Income	1	3
• Expense	(0)	(0)
Result on disposal of fixed assets:		
• Income	53	5
• Expense	(1)	(0)
Result on other remaining businesses:		
• Income	18	24
• Expense	(17)	(16)
Other business income (expenses)	**54**	**15**
Total other business income	72	32
Total other business expense	(18)	(17)

In 2018, the result on other remaining businesses includes a EUR 20 million income from the movements in the provisions with Royal Philips originating from the separation, recognized in Other. It also includes a EUR 8 million expense related to a legal provision for an adverse outcome of an appeal on a jury verdict in Professional, in the United States of America. The state Supreme Court has agreed to hear one of our three bases for appeal. In 2017, the net result mainly arises from the movements in the provisions with Royal Philips originating from the separation.

In 2017, the result on disposal of fixed assets is mostly related to the sale of real estate. It includes a EUR 15 million gain mainly allocated to Lamps in the Netherlands, a EUR 15 million gain in Home, in China and a EUR 21 million gain in Lamps, in Indonesia.

11 Financial income and expenses

Financial income and expenses include:

Financial income and expenses in mEUR

	2017	2018
Interest income	7	16
Net change in fair value of financial assets at fair value through profit or loss	-	1
Other financial income	1	4
Financial income	**8**	**20**
Interest expense	(41)	(44)
Provision-related accretion and other interest	(4)	(5)
Net foreign exchange losses	(3)	(9)
Impairment loss of financial assets	(1)	(0)
Other financial expenses	(3)	(3)
Financial expense	**(51)**	**(61)**
Financial income and expenses	**(43)**	**(41)**

During the year, interest paid to third parties amounted to EUR 31 million (2017: EUR 25 million), please refer to note 21, Short-term and long-term debt, for further details. Interest on pensions amounted to EUR 13 million (2017: EUR 16 million), please refer to note 23, Post-employment benefits, for further details.

Interest income calculated using the effective interest method for financial assets that are subsequently measured at amortized cost was EUR 1 million in 2018 (2017: EUR 1 million).

12 Income taxes

The income tax expense amounted to EUR 106 million (2017: EUR 117 million). The components of income before taxes and income tax expense are as follows:

Income tax expense in mEUR

	2017	2018
Netherlands	271	123
Foreign	127	244
Income before taxes	**398**	**367**
Netherlands:		
• Current tax benefit (expense)	(41)	(0)
• Deferred tax benefit (expense)	(24)	(48)
Total tax expense (Netherlands)	**(65)**	**(48)**
Foreign:		
• Current tax benefit (expense)	(85)	(62)
• Deferred tax benefit (expense)	33	4
Total tax expense (foreign)	**(52)**	**(58)**
Income tax expense	**(117)**	**(106)**

The components of income tax expense are as follows:

Current tax expense in mEUR

	2017	2018
Current tax expense	(124)	(82)
Prior year benefit (expense)	(2)	20
Current tax expense	**(126)**	**(62)**

Deferred income tax expense in mEUR

	2017	2018
Origination and reversal of temporary differences	11	0
Change in tax losses, tax credits and temporary differences recognized	1	(5)
Tax rate changes	(7)	(18)
Prior year benefit (expense)	4	(21)
Deferred income tax benefit (expense)	**9**	**(44)**

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

Signify's operations are subject to income taxes in various jurisdictions. The statutory income tax rates vary from 9% to 36%, which results in a difference between the weighted average statutory income tax rate and the Netherlands' statutory income tax rate of 25% (2017: 25%). A reconciliation of the weighted average statutory income tax rate to the effective income tax rate of continuing operations is as follows:

Reconciliation of income tax charge in mEUR

	2017	%	2018	%
Income before taxes	**398**		**367**	
Weighted average statutory income tax rate	(86)	(22%)	(78)	(21%)
Non-deductible expenses	(19)	(5%)	(19)	(5%)
Tax incentives and exempt income	26	7%	31	8%
Deferred tax expense related to de-recognition of deferred tax assets, net	(16)	(4%)	(3)	(1%)
Changes in the liability for uncertain tax positions	(1)	-	(10)	(3%)
Prior year tax expense	2	1%	(1)	0%
Other	(23)	(6%)	(25)	(7%)
Income tax expense recognized in Consolidated statements of income	**(117)**	**(29%)**	**(106)**	**(29%)**

The weighted average statutory income tax rate decreased by 1 percent in 2018 compared to 2017.

The effective income tax rate is higher than the weighted average statutory income tax rate in 2018 and 2017, mainly due to non-deductible expenses and the impact of tax rate changes, which is included in the line 'other', set off by tax incentives and exempt income. For 2018, the line item "Other' includes a EUR 17 million non-cash tax expense related to the revaluation of the deferred tax assets following the statutory tax rate reduction in the Netherlands. For 2017, the line item "Other" includes a EUR 7 million non-cash tax expense related to the impact on deferred taxes mainly following the statutory tax rate reductions in the United States and Belgium.

The effective tax rate was 29% in 2018 (2017: 29%), which is higher than the statutory income tax rate of 25% in the Netherlands. The difference is primarily due to income taxed in jurisdictions outside the Netherlands against a different statutory income tax rate, non-deductible expenses, tax incentives and exempt income and tax rate changes due to the Dutch tax reform.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following items:

Deferred tax assets and liabilities in mEUR

	Assets	Liabilities	Net
2018			
Intangible assets	150	(100)	50
Property, plant and equipment	22	(11)	10
Inventories	42	(0)	42
Other receivables and assets	51	(3)	47
Provisions for pensions and other postretirement	82	(0)	82
Provisions for termination benefits	15	-	15
Other provisions	35	(0)	35
Other liabilities	40	(40)	0
Deferred tax assets on tax attributes [1]	98	-	98
Total allocations	**535**	**(155)**	**380**
Set-off of deferred tax	(136)	136	0
Net deferred tax assets	**399**	**(19)**	**380**
2017			
Intangible assets	191	(113)	78
Property, plant and equipment	17	(9)	8
Inventories	38	(4)	34
Other receivables and assets	57	(2)	55
Provisions for pensions and other postretirement	86	-	86
Provisions for termination benefits	24	-	24
Other provisions	35	-	35
Other liabilities	40	(40)	-
Deferred tax assets on tax attributes [1]	93	-	93
Total allocations	**581**	**(168)**	**413**
Set-off of deferred tax	(141)	141	-
Net deferred tax assets	**440**	**(27)**	**413**

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

Deferred tax assets are recognized for temporary differences, unused tax losses, and unused tax credits to the extent that realization of the related tax benefits is probable. The ultimate realization of deferred tax assets depends 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.

The net deferred tax assets of EUR 380 million (2017: EUR 413 million) consists of deferred tax assets of EUR 399 million (2017: EUR 440 million) in countries with a net deferred tax asset position and deferred tax liabilities of EUR 19 million (2017: EUR 27 million) in countries with a net deferred tax liability position. An amount of EUR 82 million of deferred tax assets relates to several tax jurisdictions in which Signify has suffered a tax 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 sufficient taxable income to utilize these deferred tax assets.

Movement in deferred tax balances during 2018 are as follows:

Movement in deferred tax balances during the year in mEUR

	Balance as of January 1	Recog-nized in income	Other	Balance as of December 31
2018				
Intangible assets	78	(26)	(2)	50
Property, plant and equipment	8	3	0	11
Inventories	34	7	1	42
Prepaid pension assets	-	(0)	(0)	0
Other receivables	55	(8)	0	47
Provisions:				
• Pensions and other postretirement benefits	86	(7)	3	82
• Termination benefits	24	(8)	(1)	15
• Other provisions	35	(0)	0	35
Other liabilities	-	(0)	0	0
Tax loss carryforwards (including tax credit carryforwards)	93	(5)	10	98
Net deferred tax assets	**413**	**(44)**	**11**	**380**
2017				
Intangible assets	3	52	23	78
Property, plant and equipment	-	12	(4)	8
Inventories	52	(13)	(5)	34
Prepaid pension assets	(1)	2	(1)	-
Other receivables	73	(17)	(1)	55
Provisions:				
• Pensions and other postretirement benefits	151	(21)	(44)	86
• Termination benefits	4	15	5	24
• Other provisions	40	(3)	(2)	35
Other liabilities	(8)	7	1	-
Tax loss carryforwards (including tax credit carryforwards)	123	(25)	(5)	93
Net deferred tax assets	**437**	**9**	**(33)**	**413**

The column “Other” includes foreign currency translation differences, and the impact of the remeasurement of the deferred tax balances relating to Pensions and other postretirement benefits.

At December 31, 2018, the temporary differences associated with investments, including potential income tax consequences on dividends for which no deferred tax liabilities are recognized, aggregate to EUR 262 million (2017: EUR 262 million).

At December 31, 2018, net operating loss carryforwards expire as follows:

Expiry year operating loss carryforwards in mEUR

	Total	2019	2020	2021	2022	2023	After 2023 but not unlimited	Unlimited
2018	796	7	-	10	3	2	128	646

At December 31, 2018, the amount of operating loss and tax credit carryforwards for which no deferred tax assets have been recognized in the balance sheet was EUR 456 million (2017: EUR 460 million).

Out of EUR 456 million, an amount of EUR 447 million should not be limited in time, EUR 1 million will expire by 2019, EUR 5 million will expire by 2021 and the remaining EUR 3 million expires after 2023, but carryforward is limited in time.

At December 31, 2018, the amount of deductible temporary differences for which no deferred tax asset has been recognized in the balance sheet is EUR 86 million (2017: EUR 117 million).

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

Income tax receivables and payables in mEUR

	2017	2018
Income tax receivable under current assets	39	35
Income tax receivable under non-current receivables	8	8
Income tax payable	(79)	(15)

Tax risks

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

Transfer pricing uncertainties

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

Tax uncertainties on general and specific service agreements and licensing agreements

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

Tax uncertainties due to permanent establishments

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

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

With regard to these uncertainties, a liability is recognized if, as a result of a past event, Signify has an obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Related to these uncertainties a liability is recognized of EUR 48 million as disclosed in note 24, Other non-current liabilities. In addition, related to similar uncertainties, an indemnification liability to Royal Philips of EUR 61 million (2017: EUR 66 million) and an indemnification receivable of EUR 18 million (2017: EUR 9 million) is recorded. The total net liability decreased in 2018 by EUR 14 million mainly due to settlements and expirations.

13 Earnings per share

Earnings per share in mEUR unless otherwise stated

	2017	2018
Net income attributable to shareholders of Signify N.V.	294	263
Weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	143,777,590	134,305,672
Plus incremental shares assumed from conversions of:		
• Performance shares	293,340	20,128
• Conditional shares	116,906	301,500
• Restricted shares	14,518	44,299
Diluted weighted average number of ordinary shares outstanding (after deduction of treasury shares) during the year	144,202,354	134,671,599
Net income attributable to shareholders per ordinary share in EUR		
• Basic	2.04	1.95
• Diluted	2.04	1.95

14 Property, plant and equipment

The movements in property, plant and equipment are as follows:

Property, plant and equipment movement schedule in mEUR

	Land and buildings	Machinery and installations	Other equipment	Prepayments and construction in progress	Total
Balance as of January 1, 2017					
Cost	596	1,492	396	38	2,522
Accumulated depreciation/ impairment	(335)	(1,299)	(322)	-	(1,956)
Book value	**261**	**193**	**74**	**38**	**566**
Change in book value:					
Capital expenditure	5	5	13	60	84
Asset available for use	14	23	24	(60)	-
Sales and disposals	-	(1)	(1)	(2)	(4)
Divestments and transfers to assets classified as held for sale	(4)	-	-	-	(4)
Depreciation	(27)	(54)	(35)	-	(117)
Impairment	(1)	(7)	(1)	-	(9)
Translation differences and other movements	(10)	(9)	(4)	(2)	(25)
Total changes	**(24)**	**(43)**	**(5)**	**(3)**	**(74)**
Balance as of December 31, 2017					
Cost	576	1,375	346	35	2,333
Accumulated depreciation/ impairment	(339)	(1,225)	(277)	-	(1,841)
Book value	**237**	**150**	**69**	**35**	**492**
Change in book value:					
Capital expenditure	2	2	10	47	60
Asset available for use	17	22	23	(63)	0
Acquisition	-	-	-	1	1
Sales and disposals	(0)	(0)	(0)	(0)	(1)
Divestments and transfers to assets classified as held for sale	(4)	(2)	0	-	(6)
Depreciation	(27)	(43)	(35)	-	(104)
Impairment	(4)	(6)	(3)	(1)	(13)
Translation differences and other movements	(2)	3	1	0	2
Total changes	**(17)**	**(24)**	**(3)**	**(16)**	**(60)**
Balance as of December 31, 2018					
Cost	564	1,293	353	19	2,230
Accumulated depreciation/ impairment	(344)	(1,167)	(287)	-	(1,798)
Book value	**220**	**126**	**66**	**19**	**431**

Land with a book value of EUR 15 million was not depreciated in 2018 (2017: EUR 16 million). The impairment losses were mainly driven by manufacturing footprint rationalization. Property, plant and equipment includes assets under finance leases with a book value of EUR 17 million at December 31, 2018 (2017: EUR 17 million).

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

Useful lives property, plant and equipment in years

Building	from 5 to 50
Machinery and installations	from 3 to 20
Other equipment	from 1 to 10

15 Goodwill

The movements in goodwill are as follows:

Goodwill movement schedule in mEUR

	2017	2018
Balance as of January 1		
Cost	2,638	2,381
Accumulated amortization / impairment	(739)	(687)
Book value	**1,899**	**1,694**
Change in book value:		
Acquisitions	-	12
Divestments, transfers to assets classified as held for sale and other changes	(1)	-
Impairment	-	-
Translation differences	(204)	65
Total changes	**(205)**	**77**
Balance as of December 31		
Cost	2,381	2,475
Accumulated amortization / impairment	(687)	(704)
Book value	**1,694**	**1,771**

See further details on acquisitions in note 4, Interests in entities.

The increase of EUR 65 million of translation differences was mainly due to the change in the USD/EUR rate which impacted the goodwill denominated in USD.

For impairment testing, goodwill is allocated to cash-generating units, which represent the lowest level at which the goodwill is monitored internally for management purposes. The cash-generating units correspond to the operating segments.

Goodwill allocated to the cash-generating unit Professional is considered to be significant in comparison to the total book value of goodwill of Signify at December 31, 2017 and December 31, 2018. The amounts associated as of December 31, 2017, and December 31, 2018, are presented below.

Goodwill allocated to the cash-generating unit in mEUR

	2017	2018
Lamps	60	60
LED	28	80
Professional	1,484	1,534
Home	122	96
Book value	**1,694**	**1,771**

The basis of the recoverable amount used for the units disclosed in this note is the value in use. In the annual impairment test performed in the fourth quarter of 2018, the estimated recoverable amount of the cash-generating units tested exceeded the carrying value of the units. Therefore, no impairment loss was recognized.

Key assumptions used in the impairment tests for the units were sales growth rates, EBITA and the rates used for discounting the projected cash flows. These cash flow projections were determined using management's internal forecasts that cover an initial period from 2019 to 2021 that matches the period used for our strategic process. Projections were extrapolated with declining growth rates for a period of five years, after which a terminal value was calculated. For terminal value calculation, growth rates were capped at a historical long-term average growth rate. The sales growth rates and EBITA used to estimate cash flows are based on past performance, external market growth assumptions and industry long-term growth averages.

For Professional, EBITA is expected to increase over the projection period as a result of volume growth and cost efficiencies. Cash flow projections for 2018 and 2017 were based on the key assumptions included in the table below:

Key assumptions in %

	Compound sales growth rate [1]			
	Initial forecast period	Extrapolation period	Used to calculate terminal value [2]	Pre-tax discount rates
Professional 2018	4.7	3.4	2.7	10.6
Professional 2017	4.7	4.8	2.7	12.4

[1] Compound sales growth rate is the annualized steady growth rate over the forecast period.
[2] The historical long-term growth rate is only applied to the first year after the 5 year extrapolation period, after which no further growth is assumed for the terminal value calculation.

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

16 Intangible assets excluding goodwill

The movements in the intangible assets other than goodwill are as follows:

Intangible assets movements schedule in mEUR

	Product development	Technology based	Customer relationships	Brand names	Software	Other	Total
Balance as of January 1, 2017							
Cost	179	367	1,280	362	35	15	2,238
Accumulated amortization/ impairment	(147)	(259)	(807)	(235)	(16)	(6)	(1,470)
Book value	**32**	**108**	**473**	**127**	**19**	**9**	**768**
Change in book value:							
Additions	13	1	-	-	4	-	19
Amortization	(14)	(18)	(72)	(14)	(7)	(1)	(126)
Acquisitions	-	-	-	-	1	-	1
Impairment	(4)	-	(21)	(3)	(5)	-	(32)
Translation differences and other movements	(1)	(4)	(46)	(13)	-	(3)	(67)
Total changes	**(6)**	**(21)**	**(138)**	**(30)**	**(7)**	**(3)**	**(206)**
Balance as of January 1, 2018							
Cost	167	339	1,142	331	27	12	2,018
Accumulated amortization/ impairment	(141)	(252)	(807)	(234)	(15)	(6)	(1,455)
Book value	**26**	**87**	**335**	**97**	**12**	**6**	**562**
Change in book value:							
Additions	15	5	-	-	7	-	26
Amortization	(13)	(18)	(63)	(13)	(5)	(1)	(113)
Acquisitions	-	2	1	-	0	-	3
Impairment	(1)	-	-	-	(0)	-	(1)
Translation differences and other movements	0	2	10	3	(0)	0	15
Total changes	**1**	**(10)**	**(52)**	**(9)**	**1**	**(0)**	**(70)**
Balance as of December 31, 2018							
Cost	152	355	1,176	339	31	12	2,065
Accumulated amortization/ impairment	(125)	(278)	(894)	(251)	(18)	(7)	(1,572)
Book value	**27**	**77**	**282**	**88**	**13**	**5**	**493**

Intangible assets other than goodwill mainly relate to balances identified and recorded as part of acquisitions in earlier years in Professional, consisting of brand names, technology and customer relationships.

The additions for 2018 contain internally generated assets of EUR 14 million for product development, and EUR 4 million for software.

The impairment charges in 2017 include an impairment charge of EUR 20 million, of which EUR 17 million relates to customer relations and EUR 3 million to brand names in Professional. The impairment charge is based on a trigger-based test on a global specific business within Professional following lower forecasted sales compared to earlier expectations. The basis of the recoverable amount of the cash-generating unit is the value in use and was estimated at EUR 22 million. In this test, a pre-tax discount rate of 9.5% was applied. After the impairment charge, the carrying amount of the related intangible assets is zero.

The capitalized product development costs and software, for which amortization has not yet commenced, amounted to EUR 16 million as of December 31, 2018 (2017: 11 million).

The amortization of intangible assets is specified in note 9, Depreciation, amortization and impairment.

The estimated amortization expense for other intangible assets for each of the next five years is:

Estimated amortization expense for other intangible assets in mEUR

2019	96
2020	87
2021	86
2022	74
2023	35

The expected useful lives of intangible assets other than goodwill are as follows:

Expected useful lives of intangible assets excluding goodwill in years

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

As of December 31, 2018, the carrying amount of the customer relationships originating from the Genlyte acquisition was EUR 144 million (USD 165 million) with a remaining amortization period of 4.1 years (2017: EUR 175 million, USD 209 million; 5.1 years).

17 Inventories

Inventories are summarized as follows:

Inventories in mEUR

	2017	2018
Raw materials	300	315
Work in progress	25	14
Finished goods	599	550
Total	**924**	**878**

The write-down of inventories to net realizable value amounted to EUR 30 million for the year ended December 31, 2018 (2017: EUR 25 million). The write-down is included in cost of sales.

18 Other current assets

Other current assets in mEUR

	2017	2018
Prepayments	37	32
Contract assets	-	27
Other, including indirect taxes recoverable	40	48
Other current assets	**77**	**107**

Refer to note 6, Sales for further details on contract assets.

19 Receivables

Account receivables, net in mEUR

	2017	2018
Trade receivables, net	1,311	1,167
Accounts receivable, net	**1,311**	**1,167**

The aging of trade receivables, representing current and overdue, net of loss allowance, is as follows:

Aging analysis in mEUR

	2017	2018
Current	1,186	1,059
Overdue 1-30 days	38	38
Overdue 31-180 days	56	53
Overdue >180 days	30	16
Accounts receivable, net	**1,311**	**1,167**

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

Allowance for doubtful accounts in mEUR

	2017	2018
Balance as of December 31, 2017		**(85)**
Adoption of IFRS 9 - Financial Instruments		(16)
Balance as of January 1	**(89)**	**(100)**
Additions charged to expense	(33)	(19)
Reclassification	-	(0)
Utilizations	5	9
Releases	23	11
Translation differences and other movements	9	(0)
Balance as of December 31	**(85)**	**(101)**

Signify adopted IFRS 9 Financial instruments on January 1, 2018. Please refer to note 2, Significant accounting policies for further details.

As per December 31, 2018, the loss allowance for accounts receivable included allowances for individually impaired receivables of EUR 84 million (2017: EUR 80 million).

For more information on credit risk management, please refer to note 31, Details of treasury and other financial risks.

20 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, 2018, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (December 31, 2017: 143,000,000).

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, 2018, this right had not been exercised therefore no preference shares have been issued. On May 16, 2018, the Stichting changed its name from Stichting Continuïteit Philips Lighting to Stichting Continuïteit Signify.

Dividend distribution

A proposal will be submitted to the 2019 Annual General Meeting of Shareholders to pay a dividend of EUR 1.30 per ordinary share, in cash, from the 2018 net income.

In May 2018, the Company settled a dividend of EUR 1.25 per ordinary share, representing a total value of EUR 171 million including costs.

In May 2017, the Company settled a dividend of EUR 1.10 per ordinary share, representing a total value of EUR 157 million including costs.

Restricted, conditional and performance shares

The Company has granted rights to receive common shares in the future (see note 29, Share-based compensation).

Treasury shares

Shares which have been repurchased and are held in Treasury for (i) delivery of shares under the Company's long-term incentive performance share plan and other employee share plans, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are delivered under the Company's share plans, the difference between the market price of the shares delivered and the cost is recorded in retained earnings, the market price is recorded in share premium.

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

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

Outstanding number of shares in number of shares

	2017	2018
Balance as of January 1	**150,000,000**	**139,174,079**
Purchase of treasury shares	(10,850,000)	(13,155,762)
Delivery of treasury shares	24,079	76,756
Balance as of December 31	**139,174,079**	**126,095,073**

The following table shows the share transactions to cover obligations arising from share-based compensation plans:

Employee share plan transactions

	2017	2018
Shares acquired	1,050,000	1,300,000
Average market price	EUR 33.23	EUR 25.52
Amount paid	EUR 35 million	EUR 33 million
Shares delivered	24,079	76,756
Average price (FIFO)	EUR 31.73	EUR 31.71
Cost of delivered shares	EUR 1 million	EUR 2 million
Total shares in treasury at year-end	**1,025,921**	**2,249,165**
Total cost	**EUR 34 million**	**EUR 65 million**

To reduce the share capital, the following transactions took place:

Share capital transactions

	2017	2018
Shares acquired	9,800,000	11,855,762
Average market price	EUR 27.79	EUR 24.51
Amount paid	EUR 272 million	EUR 291 million
Reduction of capital stock (shares)	7,000,000	14,655,762
Reduction of capital stock	EUR 183 million	EUR 380 million
Total shares in treasury at year-end	**2,800,000**	**0**
Total cost	**EUR 90 million**	**EUR 0 million**

Limitations in the distribution of shareholders' equity

As at December 31, 2018, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 188 million. Such limitations relate to ordinary shares of EUR 1.3 million, legal reserves required by Dutch law of EUR 184 million and other reserves of EUR 3 million. The unrealized losses related to currency translation differences of EUR 29 million and cash flow hedges of EUR 9 million, although qualifying as legal reserves, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2018, amounted to EUR 1,853 million (2017: EUR 2,052 million).

The legal reserve required by Dutch law of EUR 184 million relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends.

As at December 31, 2017, these limitations in distributable reserves were EUR 190 million related to ordinary shares of EUR 1.4 million, the 'affiliated companies' reserve of EUR 184 million and other reserves of EUR 3 million and unrealized gains related to cash flow hedges of EUR 1 million. The unrealized losses related to currency translation differences of EUR 87 million although qualifying as legal reserves, reduce the distributable amount by their nature.

Non-controlling interests

For information on Non-controlling interests, refer to note 4, Interests in entities.

Objectives, policies and processes for managing capital

The company manages capital based upon the following measures; working capital, net debt and cash flows before financing activities. These measures are used by the company to evaluate the capital efficiency of its businesses. Working capital is defined as the sum of Inventories, Receivables, Other current assets, Derivative financial assets minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities, and Other current liabilities. Net debt is the sum of long and short-term debt minus cash and cash equivalents. Cash flows before financing activities consist of cash flows from operating activities and cash flows from investing activities.

Working capital in mEUR unless otherwise stated

	Balance as of December 31, 2017 [1]	Balance as of December 31, 2018
Inventories	924	878
Receivables	1,373	1,231
Accounts and notes payable	(1,001)	(953)
Accrued liabilities	(475)	(444)
Other	(224)	(176)
Working capital	**597**	**536**

1) Restated to exclude income tax payable and receivable.

Composition of net debt to total equity in mEUR unless otherwise stated

	Balance as of December 31, 2017	Balance as of December 31, 2018
Short-term debt	140	78
Long-term debt	1,170	1,187
Gross debt	**1,309**	**1,265**
Cash and cash equivalents	942	676
Net debt (cash)	**367**	**589**
Shareholders' equity	2,242	2,041
Non-controlling interests	79	78
Total equity	**2,321**	**2,119**
Net debt and total equity	2,688	2,709
Net debt divided by net debt and total equity (in %)	14%	22%
Total equity divided by net debt and total equity (in %)	86%	78%

Composition of cash flows in mEUR

	2017	2018
Cash flows from operating activities	435	381
Cash flows from investing activities	(26)	(90)
Cash flows before financing activities	**409**	**291**

The net debt position as a percentage of the sum of net debt and total equity is presented to express the financial strength of the company. This measure is used by Treasury management of the company and investment analysts and is therefore included in the disclosure. The net debt position is managed to a level compatible with an investment grade profile. Furthermore, the company's policy is to target an annual payment of a regular cash dividend in line with its dividend policy at 40%-50% of continuing net income.

In 2018, total net debt increased by EUR 222 million (2017: EUR 26 million). Repayments amounted to EUR 87 million (2017: EUR 132 million). Translation differences and other movements led to an increase of EUR 14 million (2017: decrease of EUR 50 million).

21 Short-term and long-term debt

Short-term and long-term debt are financial liabilities measured at amortized cost and relate to financing by banks and financial institutions.

Short-term and long-term debt in mEUR

	2017	2018
Facility (EUR)	736	737
Facility (USD)	417	437
Finance lease	19	18
Other debt	120	62
Subtotal	**1,292**	**1,253**
Bank overdrafts	17	12
Total	**1,309**	**1,265**
Of which:		
Short-term debt	140	78
Long-term debt	1,170	1,187
Total	**1,309**	**1,265**

In May 2016, the Company entered into a five-year term loan facility agreement. The amounts of the term facility are EUR 740 million and USD 500 million. The term loan facility is repayable at the end of the term and may also be repaid without penalty at the option of Signify during the term. The Term Loan Facility bears interest at a variable rate based on the relevant applicable EURIBOR and LIBOR respectively with zero floor plus a margin. The margin was 0.65% as of December 31, 2018 (December 31, 2017: 0.65%),and is subject to semi-annual adjustment based on the level of the Net Leverage Ratio. The Net Leverage Ratio is the ratio of consolidated total net debt as of the test date to consolidated adjusted EBITDA for the preceding 12 months.

In addition, Signify entered into a five-year committed Revolving Credit Facility of EUR 500 million in May 2016. As of December 31, 2018, Signify did not have any amounts outstanding under this facility.

Debt issuance costs of EUR 8 million were paid upon signing the facility. These costs are being amortized over the term of the facility as part of financial expenses.

The Term and Revolving Credit Facilities Agreement contains customary undertakings. The undertakings include, among others, a negative pledge that provides, subject to certain exceptions, that no member of Signify may grant security over its assets without the consent of the lenders, and a restriction on subsidiaries of the Company (other than the obligors) incurring additional financial indebtedness. There are also restrictions (subject to certain exceptions and thresholds) on engaging in acquisitions, disposals and reorganizations.

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

Other debt includes various local (bank) loans. The main other debt position consists of loans of Signify in Saudi Arabia amounting to EUR 26 million (2017: EUR 45 million) with nominal average interest rate of 4.99% and which are denominated in USD and SAR.

New borrowings and repayments of short-term and long-term debt resulting from financing activities are as follows:

Movement schedule of short and long-term debt in mEUR

	Long-term debt	Short-term debt	Total
Balance as of January 1, 2017	**1,224**	**157**	**1,381**
New borrowings	-	110	110
Repayments	-	(132)	(132)
Translation differences and other movements	(55)	5	(50)
Balance as of December 31, 2017	**1,170**	**140**	**1,309**
Balance as of January 1, 2018	**1,170**	**140**	**1,309**
New borrowings	-	27	27
Repayments	-	(87)	(87)
Translation differences and other movements	17	(3)	14
Balance as of December 31, 2018	**1,187**	**78**	**1,265**

22 Provisions

Provisions in mEUR

	2017		2018	
	Long-term	Short-term	Long-term	Short-term
Post-employment benefits (see note 23)	497	-	475	-
Restructuring related provisions	37	108	18	81
Environmental provisions	104	26	95	20
Product warranty	15	31	17	25
Other provisions	124	40	107	42
Total	**777**	**204**	**712**	**168**

Provisions can be analyzed as follows:

Restructuring-related provisions

Restructuring-related provision in mEUR

	2017	2018
Balance as of January 1	**132**	**145**
Additions	132	103
Utilizations	(99)	(139)
Releases	(23)	(11)
Translation differences and other movements	4	1
Balance as of December 31	**145**	**99**

In 2018, the significant restructuring projects were related to the reduction of indirect costs and the simplification of the business structure in Professional. The restructuring projects mostly took place in the Netherlands, Germany, United States and France. Signify expects the provision will be utilized mostly within the next year.

Environmental provisions

The movements in environmental provisions during the years presented are as follows:

Environmental provisions in mEUR

	2017	2018
Balance as of January 1	**153**	**129**
Additions	9	9
Utilizations	(27)	(19)
Releases	(5)	(6)
Change in discount rate	2	1
Accretion	2	1
Translation differences and other movements	(5)	0
Balance as of December 31	**129**	**115**

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 judgements and discount rates. Also refer to note 27, Contingent liabilities.

The environmental provision is expected to be utilized mainly within the next five years.

Product warranty

Provisions for product warranty in mEUR

	2017	2018
Balance as of January 1	**57**	**46**
Additions	25	25
Utilizations	(33)	(29)
Translation differences and other movements	(4)	(0)
Balance as of December 31	**46**	**42**

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 utilized mainly within the next year.

Other provisions

Other provisions in mEUR

	2017	2018
Balance as of January 1	**181**	**164**
Additions	49	46
Utilizations	(38)	(36)
Reclassifications	3	(7)
Releases	(24)	(20)
Change in discount rate	-	0
Accretion	2	2
Translation differences and other movements	(10)	0
Balance as of December 31	**164**	**149**

Other provisions mainly comprise of provisions for legal claims, self-insurance, decommissioning, onerous contract provisions and provision for employee jubilee funds.

The provisions for legal claims, self-insurance, decommissioning, onerous contract, are expected to be used mainly within the next three years. More than half of the provision for employee jubilee funds is expected to be used within five years.

23 Post-employment benefits

Employee post-employment benefit plans have been established in many countries in accordance with the legal requirements, customs and local practice in the countries involved.

Defined contribution plans

Most employees that take part in a company pension plan are covered by defined contribution pension plans. The largest defined contribution plans are in the Netherlands and in the US. The total contribution paid in 2018 by the company was EUR 80 million, of which EUR 54 million to the Dutch plan and EUR 14 million to the US plan.

Defined benefits plans

The company also sponsors several defined benefit pension plans. The benefits provided by these plans are based on employees' years of service and compensation levels. The company also sponsors a few defined benefit retiree medical plans. The benefits provided by these plans typically cover part of the healthcare insurance costs after retirement.

The largest defined benefit post-employment benefit plans are in the US and Germany. At the end of 2018 these plans accounted for 86% of the defined benefit obligation.

United States

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

The company made contributions to the qualified pension plan of USD 30 million in 2018 as part of a three-year funding plan (2017-2019) to improve the funding level and to lower future interest expenses. The contribution was lower than the originally anticipated amount of USD 50 million due to better than anticipated equity returns in 2017 within the US pension fund. In 2019, the company intends to make a further contribution of up to USD 50 million as part of the three-year funding plan as announced in 2017. In the course of 2019, the company will assess the optimal level of contribution.

Germany

Employees with a salary above a certain salary threshold participate in a defined benefit pension plan, which has a deficit of EUR 3 million. Since 2016, the company no longer makes any contributions to the plan but funds the liabilities when these are paid out to retirees. This plan is closed for new entrants from January 1, 2018, new entrants will only accrue pension benefits through a defined contribution plan. For other closed defined benefit plans, the company has an unfunded liability of EUR 211 million.

Risks related to defined-benefit plans

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

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

The company has an active de-risking strategy in which it constantly looks for opportunities to reduce the risks associated with its defined benefit plans.

Balance sheet positions

The company presents all net defined benefit post-employment obligations on one line under non-current provisions.

The measurement date for all defined-benefit plans is December 31.

Summary of pre-tax costs for post-employment benefits

The table below contains the total of current- and past service costs, administration costs and settlement results as included in Income from operations and the interest cost as included in Financial expenses.

Summary of pre-tax costs for post-employment benefits in mEUR

	2017	2018
Defined-benefit plans		
• included in operating cost	10	5
• included in financial expense	16	13
Defined-contribution plans including multi-employer plans		
• included in operating cost	83	80
Total of pre-tax costs for post-employment benefits	**109**	**98**

Defined benefit plans

Movements in the defined benefit obligation, plan assets and net liability for defined benefit plans:

Development of the net liability in mEUR

			2017			2018
	Obligation	Plan assets	Net liability	Obligation	Plan assets	Net liability
Balance as of January 1	**1,243**	**(641)**	**602**	**1,036**	**(540)**	**496**
Service cost	11	-	11	10	-	10
(Negative) past service cost	(1)	-	(1)	(5)	-	(5)
Admin expenses paid	-	1	1	-	1	1
Settlements	(104)	104	-	(1)	-	(1)
Interest (cost) / income	39	(23)	16	30	(17)	13
Included in Statements of Income	**(55)**	**82**	**27**	**34**	**(16)**	**18**
Actuarial gains / (losses)						
• Demographic assumptions	(1)	-	(1)	(1)	-	(1)
• Financial assumptions	37	(46)	(9)	(47)	58	11
• Experience adjustment	4	-	4	-	-	-
Exchange rate differences	(98)	60	(38)	25	(20)	5
Included in Statements of comprehensive income	**(58)**	**14**	**(44)**	**(23)**	**38**	**15**
Employee contributions	1	(1)	-	1	(1)	-
Employer contributions	-	(51)	(51)	-	(31)	(31)
Benefits paid						
• Benefits paid direct by employer	(34)	-	(34)	(32)	-	(32)
• Benefits paid from plan assets	(57)	57	-	(58)	58	-
Reclassifications	(4)	-	(4)	7	1	8
Other	**(94)**	**5**	**(89)**	**(82)**	**27**	**(55)**
Balance as of December 31	**1,036**	**(540)**	**496**	**965**	**(491)**	**474**

Plan assets allocation

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

Plan assets allocation in mEUR

	2017	2018
Debt securities	376	351
Equity securities	92	76
Other	72	64
Total assets	**540**	**491**

The assets in 2018 contain 13% unquoted assets. Plan assets in 2018 do not include property occupied by or financial instruments issued by the company.

Some 87% 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 13% of the total plan assets is mainly the market value of insured pension benefits.

Assumptions

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

- US: Base table RP-2014 White Collar, projected with mortality improvements from the base year of the table, 2014, with MP-2018.
- Germany: Richttafeln 2018G K. Heubeck.

For the US, the same mortality table has been used as for the 2017 valuation but with a new longevity improvement scale which was released by the Society of Actuaries in October 2018. The new table shows a lower degree of longevity improvement than reflected in the improvement scale which was used in the previous year.

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

Assumptions used for defined benefit obligations in %

	2017	2018
Discount rate	3.0	3.5
Pension cost increases	0.3	0.3
Healthcare cost increases	0.3	0.5
Wage increases	1.1	1.0

The average duration of the defined benefit obligation of the pension plans is 10.2 years.

Sensitivity analysis

The table below illustrates the approximate impact on the defined benefit obligation if the company were to change key assumptions. The defined benefit obligation was recalculated using a change of 1% in the respective assumptions which overall is considered a reasonably possible change. The impact on the defined benefit obligation because of changes in discount rate is normally accompanied by offsetting movements in plan assets, especially when using matching strategies.

Defined benefit obligation of post-employment benefit provision in mEUR

	2017	2018
Increase		
Discount rate (1% movement)	(96)	(88)
Wage change (1% movement)	6	6
Pension cost change (1% movement)	22	23
Longevity (see explanation)	32	30
Healthcare cost change (1% movement)	8	8
Decrease		
Discount rate (1% movement)	112	100
Wage change (1% movement)	(5)	(6)
Pension cost change (1% movement)	(21)	(21)

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

Cash flows in 2019

For 2019, the company expects cash outflows in relation to post-employment benefits, which are estimated at EUR 170 million and consist of:

- EUR 53 million employer contributions to defined benefit plans, which includes a USD 50 million contribution in the US pension plan as part of de-risking;
- EUR 34 million employer-expected cash outflows in relation to unfunded defined benefit plans;
- EUR 83 million employer contributions to defined contribution plans.

For the funding of the deficit of the US qualified pension plan the company adheres to the minimum funding requirements of the US Pension Protection Act.

The service and administration cost for 2019 is expected to amount to EUR 10 million. The interest expense for 2019 is expected to amount to EUR 14 million. The cost for defined contribution pension plans in 2019 is expected to amount to EUR 55 million in the Netherlands and EUR 28 million in other countries.

24 Other non-current liabilities

Other non-current liabilities are summarized as follows:

Other non-current liabilities in mEUR

	2017	2018
Deferred income	48	49
Other tax liabilities	40	48
Other liabilities	78	76
Other non-current liabilities	**167**	**173**

Other liabilities are mainly related to indemnification balances, for additional information, please refer to note 28, Related party transactions.

For further details on Deferred Income refer to note 6, Sales.

25 Other current and accrued liabilities

Other current and accrued liabilities are summarized as follows:

Other current and accrued liabilities in mEUR

	2017	2018
Other current liabilities		
Customer rebates payables	162	163
Advances from customers	19	16
Other taxes including social security premiums	94	56
Other liabilities	35	52
Total	**309**	**288**
Accrued liabilities		
Personnel related costs:		
• Salaries and wages	146	110
• Accrued holiday entitlements	43	39
• Other personnel related costs	23	26
Fixed asset related costs:		
• Gas, water, electricity, rent and other	16	21
Communication and IT costs	17	16
Distribution costs	44	42
Sales related costs:		
• Advertising and marketing related costs	29	29
• Other sales related costs	19	18
Material related costs	26	24
Deferred income	41	54
Other accrued liabilities	70	66
Total	**475**	**444**

For further details on Deferred Income and Advances from customers refer to note 6, Sales.

26 Contractual obligations

The following table presents the contractual cash obligations of Signify as of December 31, 2018.

Off-balance sheet commitments relate to purchase obligations and operating lease obligations.

Contractual cash obligations in mEUR

		Payments due by period [1]			
	Total	2019	2020-2021	2022-2023	after 2023
Long-term debt [2]	1,175	-	1,174	-	1
Finance lease liabilities [3]	18	6	9	3	-
Short-term debt	73	73	-	-	-
Operating lease obligations	285	79	107	48	50
Derivative liabilities	22	22	-	-	-
Interest on debt [4]	51	24	27	-	-
Purchase obligations [5]	56	43	10	3	-
Trade payables	953	953	-	-	-
Contractual cash obligations	**2,633**	**1,200**	**1,328**	**54**	**51**

1) Obligations in this table are undiscounted.
2) Long-term debt includes short-term portion of debt.
3) Including sale finance lease back payments of EUR 10 million.
4) Interest on Long-term debt is based on floating rate adjustments according to market expectations.
5) Signify has commitments related to the ordinary course of business which in general relate to contracts and purchase order commitments for less than 12 months. In the table, only the commitments for multiple years are presented, including their short-term portion.

Operating lease - minimum payments under sale-and-leaseback arrangements in mEUR

2019	4
2020	4
2021	4
2022	-
2023	-
After 2023	-

Finance lease liabilities in mEUR

	Future minimum lease payments	Interest	Present value of minimum lease payments
2019	6	1	5
2020-2023	12	1	12
After 2023	-	-	1
Finance lease total	**18**	**1**	**18**

27 Contingent liabilities

Indemnifications

By way of surety for the fulfilment of Signify's obligations under the Separation Agreement, including the indemnifications granted to Royal Philips, certain major subsidiaries of Signify have provided guarantees to Royal Philips. Conversely, certain major subsidiaries of Royal Philips have provided guarantees to Signify. Refer to note 28, Related party transactions.

Environmental remediation

Signify is subject to environmental laws and regulations. Under these laws and regulations, Signify may be required to remediate the effects of certain pollutants on the environment.

Legal proceedings

Signify is involved as a party in legal proceedings, regulatory and other governmental proceedings, including discussions on potential remedial actions, relating to, commercial transactions, intellectual property disputes, product liability, environmental pollution, labor related disputes and business conduct rules.

While it is not feasible to predict or determine the ultimate outcome of all pending or threatened legal proceedings, regulatory and governmental proceedings, Signify is of the opinion that the proceedings may have a significant impact on Signify's Consolidated balance sheets, Consolidated statements of income and Consolidated statements of cash flows.

28 Related party transactions

The Consolidated financial statements include transactions with Royal Philips and its group companies that are outside of Signify. Royal Philips is a related party as it either controlled or had significant influence over Signify during the periods presented.

On November 28, 2017, Royal Philips reduced its shareholding in Signify. Following this transaction, Royal Philips no longer had control over Signify. However, Signify remained an associate of Royal Philips until December 31, 2018. At this date, Mr. Abhijit Bhattacharya stepped down from the Supervisory Board of Signify, after Royal Philips further reduced its shareholding in Signify.

Transactions during the year include those related to the separation from Royal Philips, as well as the Transitional Service Level Agreement, based on which Royal Philips provides Signify with certain services such as IT, real estate, human resources among others.

On June 30, 2017, Royal Philips sold an 80.1% interest in the combined Lumileds and Automotive businesses. As of that date, the companies representing those businesses are no longer considered a related party of Signify.

An overview of the significant related party transactions and balances is as follows:

Related party transactions in mEUR

	2017	2018
Sales to Royal Philips	9	14
Purchases from Royal Philips [1]	(13)	(4)
Repurchases of shares from Royal Philips	(272)	(71)
Movement in funding from (to) Royal Philips	(24)	(1)
Movement in indemnification position from (to) Royal Philips [1]	8	34
Brand license fee costs	(39)	(34)
Transition Service Level Agreement costs	(53)	(30)

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

Related party balances in mEUR

	2017	2018
Accounts receivable from Royal Philips	7	4
Accounts payable to Royal Philips	(26)	(13)
Indemnification receivable from Royal Philips	26	50
Indemnification payable to Royal Philips	(75)	(67)

In addition to these transactions and balances, please refer to note 29, Share-based compensation for disclosures on the accounting for Signify employees participating in the Royal Philips long-term incentive plan.

Indemnification receivable from (payable to) Royal Philips mainly relates to the indemnification for tax assets (liabilities) arising after Separation which are attributable to Signify. Signify uses the Philips brand name under the Trademark License Agreement with Royal Philips.

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 30, Information on remuneration.

29 Share-based compensation

Signify Long-term Incentive Plan

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

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

For the Board of Management and certain members of senior management, the LTI Plan consists of performance shares only. Shares are conditionally granted annually.

In addition to shares awarded under the Signify LTI Plan, Signify may in individual cases, such as in the hiring process of members of (senior-) management, also grant restricted shares. Restricted shares have either three-year cliff vesting period or vest gradually over the vesting period of one, two or three years.

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

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

Signify performance shares

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

Assumptions used in Monte-Carlo simulation for valuation in %

	2018
Risk-free interest rate	(0.5%)
Expected share price volatility	30%

The assumptions were used for these calculations only and do not necessarily represent an indication of Signify management's expectation of future developments for other purposes. Historic volatility was measured over the same timeframe as the simulation period (weighted average 2.6 years).

The amount calculated as an expense for TSR shares is not adjusted for actual performance.

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

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

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

Signify performance shares

	Shares	Weighted average grant-date fair value
EUR-denominated		
Balance as of December 31, 2017	**830,343**	**36.05**
Granted	1,219,112	21.35
Vested	(42,416)	37.54
Forfeited	(228,919)	29.87
Performance adjustment	-	-
Balance as of December 31, 2018	**1,778,120**	**26.73**

On December 31, 2018, estimated unrecognized costs related to non-vested performance shares amounted to EUR 22 million. These costs are expected to be recognized over a weighted-average period of 1.7 years.

Signify conditional shares

Fair value of conditional shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

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

Signify conditional shares

	Shares	Weighted average grant-date fair value
EUR-denominated		
Balance as of December 31, 2017	**339,188**	**29.21**
Granted	285,080	21.63
Vested	(11,584)	28.89
Forfeited	(75,899)	27.36
Performance adjustment	-	-
Balance as of December 31, 2018	**536,785**	**25.46**

On December 31, 2018, costs related to non-vested conditional shares amounted to EUR 6 million. These costs are expected to be recognized over a weighted-average period of 1.6 years.

Signify restricted shares

Fair value of restricted shares is determined by subtracting the present value of expected dividends from the closing share price on the grant date as participants are not compensated for Signify dividend payouts.

In 2018, Signify granted 64,164 restricted shares with weighted average grand date fair value of 19.82 EUR.

On December 31, 2018, 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 0.8 years.

Royal Philips Long-term Incentive Plan

Until the settlement of the IPO of in 2016, eligible employees of Signify as well as members of the Board of Management participated in grants made under the Royal Philips Long-term Incentive Plan. Those employees remain to participate in the Royal Philips LTI Plan, which is equity settled, until the shares from the last grant in 2016 will vest in 2019. The expense for Signify, calculated and accounted for in accordance with IFRS 2, equals the recharge from Royal Philips to Signify. Signify is not charged for any additional costs upon delivery of shares. After the settlement of the IPO no new grants have been made or will be made by Royal Philips to employees of Signify.

Royal Philips has the following plans:

- Performance shares - rights to receive common shares in the future based on performance and service conditions.
- Restricted shares - rights to receive common shares in the future based on a service condition.
- Options on its common shares, including the 2012 and 2013 Accelerate! grant.

USD-denominated performance shares, restricted shares and options were granted to employees in the US only.

Royal Philips performance shares

The performance is measured over a three-year performance period. The performance shares have two performance conditions, relative Total Shareholders' Return of Royal Philips and adjusted EPS growth of Royal Philips. The performance shares vest three years after the grant date. The number of performance shares that will vest is dependent on achieving the two performance conditions, which are equally weighted, and provided that the grantee is still employed with Royal Philips, which for this purpose includes Signify, on the respective delivery dates.

The amount recognized as an expense is adjusted for actual performance of adjusted EPS growth since this is a non-market performance condition. It is not adjusted for non-vesting or extra vesting of performance shares due to a relative Total Shareholders' Return performance that differs from the performance anticipated at the grant date, since this is a market-based performance condition.

A summary of the status of Royal Philips performance share plans applicable to Signify employees as of December 31, 2018, and changes during the year are presented below.

Royal Philips performance shares

	Shares	Weighted average grant-date fair value
EUR-denominated		
Balance as of December 31, 2017	**1,397,824**	**26.82**
Granted	-	-
Vested	(743,592)	28.42
Forfeited	(152,283)	25.73
Performance adjustment	(30,118)	24.77
Balance as of December 31, 2018	**471,831**	**24.77**
USD-denominated		
Balance as of December 31, 2017	**371,622**	**29.33**
Granted	-	-
Vested	(199,606)	30.13
Forfeited	(27,553)	28.72
Performance adjustment	(8,668)	28.35
Balance as of December 31, 2018	**135,795**	**28.35**

On December 31, 2018, an estimated total of EUR 2 million of unrecognized compensation costs related to non-vested performance shares was allocated to employees of Signify. These costs are expected to be recognized over a weighted-average period of 0.3 years.

Royal Philips restricted shares

The fair value of restricted shares is equal to the share price at grant date.

Royal Philips issues restricted shares that, in general, have a three-year cliff vesting period. For grants up to and including January 2013, Royal Philips granted 20% additional (premium) shares, provided the grantee still holds the shares after three years from the delivery date and the grantee is still with Royal Philips, which for this purpose includes Signify, on the respective delivery dates.

A summary of the status of Royal Philips restricted shares granted to Signify employees as of December 31, 2018, and changes during the year are presented below:

Royal Philips restricted shares

	Shares	Weighted average grant-date fair value
EUR-denominated		
Balance as of December 31, 2017	**298,054**	**24.02**
Granted	-	-
Vested	(38,057)	24.09
Forfeited	(45,276)	24.05
Balance as of December 31, 2018	**214,721**	**24.00**
USD-denominated		
Balance as of December 31, 2017	**78,635**	**27.39**
Granted	-	-
Vested	(10,066)	27.52
Forfeited	(4,217)	27.43
Balance as of December 31, 2018	**64,352**	**27.37**

On December 31, 2018, an estimated total of EUR 1 million of unrecognized compensation costs relate to non-vested restricted shares allocated to employees of Signify. These costs are expected to be recognized over a weighted-average period of 0.3 years.

Royal Philips Option plans

Royal Philips granted options that expire after 10 years. These options vest after three years, provided that the grantee is still employed with Royal Philips, which includes Signify.

On December 31, 2018, there were no unrecognized compensation costs related to outstanding options.

Total share-based compensation costs for Signify for the period ended December 31, 2018 were EUR 29 million (period ended December 31, 2017: EUR 36 million). Of the EUR 29 million share-based compensation costs for period ended December 31, 2018, EUR 20 million was related to the Signify LTI Plan, and the remaining was related to the Royal Philips LTI Plan. Of the EUR 36 million share-based compensation costs for the period ended December 31, 2017, EUR 11 million was related to the Signify LTI Plan, and the remaining was related to the Royal Philips LTI Plan.

30 Information on remuneration

Remuneration of the Board of Management

In 2018, the total remuneration costs relating to the members of the Board of Management amounted to 5,246,735 (2017: EUR 6,034,313).

At December 31, 2018, the members of the Board of Management held no options on Signify shares (2017: nil) and held no stock options related to shares in Royal Philips (2017: 46,125, price: EUR 22.46).

Remuneration costs of Key Management in EUR

	2017	2018
Board of Management	6,034,313	5,246,735
Supervisory Board [1] [2]	585,291	607,440
Total	**6,619,604**	**5,854,175**

[1] Supervisory Board: 1 new member as of May 15, 2018 (allowances for observer period till May 15, 2018 included)
[2] Supervisory Board: 1 member stepped down as of May 15, 2018

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

	Base compensation/ salary	Annual incentive [1]	Performance shares [2]	Restricted share rights [2]	Pension allowances	Pension scheme costs	Other compensation [3]	Total costs
2018								
E.H.E. Rondolat	850,000	410,720	912,497	899	315,735	25,708	48,747	2,564,306
S.L.A. Rougeot	556,000	201,494	292,109	–	113,856	25,708	44,062	1,233,229
C.L. van Schooten	555,000	201,132	437,072	176	206,342	25,708	23,770	1,449,200
	1,961,000	**813,346**	**1,641,678**	**1,075**	**635,933**	**77,124**	**116,579**	**5,246,735**
2017								
E.H.E. Rondolat	850,000	753,440	1,057,400	4,743	316,175	25,278	41,585	3,048,621
S.L.A. Rougeot	554,500	369,629	165,061	–	111,671	25,278	138,692	1,364,831
C.L. van Schooten	547,500	368,964	460,649	1,280	193,657	25,278	23,533	1,620,861
	1,952,000	**1,492,033**	**1,683,110**	**6,023**	**621,503**	**75,834**	**203,810**	**6,034,313**

[1] The annual incentives are related to the performance in the year reported which are paid out in the subsequent year.
[2] Costs of performance shares and restricted share rights (Royal Philips shares only) are based on accounting standards (IFRS) and do not reflect the value of the shares at the vesting/release date.
[3] The stated amounts mainly concern (share of) allowances to members of the Board of Management that can be considered as remuneration. In a situation where such a share of an allowance can be considered as (indirect) remuneration (for example, private use of the company car), then the share is both valued and accounted for here. The method employed by the fiscal authorities in the Netherlands is the starting point for the value stated.

For further information on remuneration costs, see chapter 9, Remuneration report, of this Annual Report.

The tables below give an overview of the performance shares of Signify and the performance share plans, restricted share rights and the stock option plans of Royal Philips, held by the members of the Board of Management of Signify:

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

	January 1, 2018	Awarded 2018	Awarded dividend shares 2018	Realized 2018	December 31, 2018	Vesting date
E.H.E. Rondolat	30,909 [1]	–	–	51,525	–	05.05.2018
	38,267 [1]	–	865	–	39,132	04.29.2019
	31,253 [2]	–	–	–	31,253	31.01.2020
	–	28,103 [2]	–	–	28,103	01.02.2021
S.L.A. Rougeot	16,355 [2]	–	–	–	16,355	31.01.2020
	–	14,708 [2]	–	–	14,708	01.02.2021
C.L. van Schooten	10,658 [1]	–	–	17,767	–	05.05.2018
	16,742 [1]	–	378	–	17,120	04.29.2019
	16,325 [2]	–	–	–	16,325	31.01.2020
	–	14,680 [2]	–	–	14,680	01.02.2021
Performance shares (holdings)	**160,509**	**57,491**	**1,243**	**69,292**	**177,676**	

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

Royal Philips restricted shares all vested prior to January 1, 2016. However, members of the Board of Management are entitled to receive premium shares if shares from restricted share rights release are kept for another 3 years. As at December 31, 2018, awarded Royal Philips premium shares amounted to nil (2017: 2,041) for E.H.E. Rondolat and nil (2017: 191) for C.L. van Schooten.

Royal Philips Stock options (holdings) in number of shares

	January 1, 2018	Granted	Exercised	Expired	December 31, 2018	Grant price (in EUR)	Share (closing) price on exercise date	Expiry date
E.H.E. Rondolat[1]	–	–	–	–	–	–	–	–
S.L.A. Rougeot	–	–	–	–	–	–	–	–
C.L. van Schooten[1]	18,000	–	18,000	–	–	24.90	34.87	04.19.2020
	28,125	–	28,125	–	–	20.90	36.02	04.18.2021
Stock options (holdings)	**46,125**	**–**	**46,125**	**–**	**–**			

1) Awarded before date of appointment as a member of the Board of Management.

See note 29, Share-based compensation, for further information on the Long-term Incentive Plans of Signify and Royal Philips.

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

Accumulated annual pension entitlements and pension-related costs in EUR

	Age at December 31, 2018	Accumulated annual pension as of December 31, 2017 [1]	Total pension-related costs 2017 [2]	Accumulated annual pension as of December 31, 2018 [1]	Total pension-related costs 2018 [2]
E.H.E. Rondolat	52	32,023	341,453	33,907	341,443
S.L.A. Rougeot	50	2,199	136,949	3,903	139,564
C.L. van Schooten	59	206,001	218,935	208,929	232,050
Pension costs			**697,337**		**713,057**

1) Total of entitlements under applicable pension scheme in Signify presented as from age 67 in 2017 and as from age 68 in 2018 due to change in retirement age, 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 2018, no (additional) pension benefits were granted to former members of the Board of Management.

Remuneration of the Supervisory Board

The remuneration of the members of the Supervisory Board amounted to EUR 607,440 (2017: EUR 585,291).

At December 31, 2018, the members of the Supervisory Board held no (2017: nil) stock options, performance-, conditional-, and restricted shares of Signify.

The individual members of the Supervisory Board received, by virtue of the positions they held, the following remuneration (in EUR):

Remuneration of Key Management - the Supervisory Board in EUR

	Membership	Committees	Other compensation [6]	Total
2018 [1]				
A.P.M. van der Poel	110,000	25,000	5,000	140,000
G. van der Aast	85,000	28,000	5,000	118,000
E. Blok [2]	56,250	12,815	5,000	74,065
C.J.A. van Lede [3]	28,125	11,000	-	39,125
R.S. Lane	75,000	18,625	27,500	121,125
J. Lee	75,000	20,125	20,000	115,125
A. Bhattacharya [5,7]	-	-	-	-
	429,375	**115,565**	**62,500**	**607,440**
2017 [1]				
A.P.M. van der Poel	110,000	25,000	-	135,000
G. van der Aast [4]	81,250	28,141	-	109,391
C.J.A. van Lede	75,000	34,275	-	109,275
R.S. Lane	75,000	18,625	35,000	128,625
J. Lee [4]	75,000	13,000	15,000	103,000
F.A. van Houten [5]	-	-	-	-
A. Bhattacharya [5]	-	-	-	-
	416,250	**119,041**	**50,000**	**585,291**

1) The amounts mentioned in this table are excluding VAT.
2) Appointment as a member of the Supervisory Board in AGM 2018. The remuneration includes the observer period.
3) Stepped down as member of the Supervisory Board as per May 15, 2018.
4) Appointment as a member of the Supervisory Board in AGM 2017. The remuneration includes the observer period.
5) Unsalaried.
6) The amounts mentioned under other compensation relate to the fee for intercontinental travel, inter-European travel.
7) Stepped down as member of the Supervisory Board per December 31, 2018.

Supervisory Board members' and Board of Management members' interests in Signify shares

Signify Shares held by Board members in number of shares

	December 31, 2017	December 31, 2018
E.H.E. Rondolat	25,000	44,000
S.L.A. Rougeot	5,000	10,000
C.L. van Schooten	12,500	12,500

At December 31, 2018, the members of the Supervisory Board held no Signify shares.

31 Details of treasury and other financial risks

Signify is exposed to several types of financial risks. This note further analyzes these financial risks.

Signify enters derivative financial instruments to hedge part of this risk but does not purchase or hold these instruments for speculative purposes.

Information regarding financial instruments is included in note 32, Fair value of financial assets and liabilities.

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. As of December 31, 2018, Signify had outstanding interest-bearing debt of EUR 1,265 million (2017: EUR 1,309 million), which creates an inherent interest rate risk. Failure to effectively hedge this risk could negatively impact financial results.

Signify monitors interest rate coverage, short-term and long-term interest rate developments and has the flexibility to opt for different short-term interest periods for the debt instruments at roll-over dates and/or could enter into derivative financial instruments to fix interest rates for a certain period of time. As of December 31, 2018, Signify had a ratio of fixed-rate debt to total outstanding debt of approximately 1% (2017: 2%).

A sensitivity analysis conducted as of January 2019 shows that if interest rates were to increase instantaneously by 1% from their level of December 31, 2018, with all other variables held constant, the annualized net interest expense would increase by approximately EUR 1 million. This impact was based on the outstanding net floating debt position as of December 31, 2018.

Liquidity risk

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

Liquidity risk for the company is monitored through the Treasury Risk Committee which tracks the development of the actual cash flow position for the company and uses input from a number of sources in order to forecast the overall liquidity position.

Signify invests surplus cash primarily in money market deposits with investment graded financial institutions, and with maturities up to three months, to ensure sufficient liquidity is available to meet liabilities when due.

Signify has various sources to mitigate the liquidity risk for the company. Signify pools cash from subsidiaries to the extent legally and economically feasible; cash not pooled remains available for operational or investment needs by the company. The table below shows details of cash and cash equivalents and bank overdrafts as of the reporting date:

Cash and cash equivalents and bank overdrafts in mEUR

	2017	2018
Cash at banks and in hand	390	302
Short-term deposits	495	336
Other cash equivalents	57	38
Cash and cash equivalents	**942**	**676**
Bank overdrafts	(17)	(12)
Cash and cash equivalents and bank overdrafts	**925**	**664**

Furthermore, Signify has a EUR 500 million revolving credit facility that can be used for general purposes. The EUR 500 million facility is maturing in May 2021. As of December 31, 2018, Signify did not have any amounts outstanding under this facility (2017: nil). Please refer to note 26, Contractual obligations, for further details on amounts and timing of financial liabilities.

Currency risk

Currency risk is the risk that reported financial performance, or the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Signify operates in many countries and currencies and therefore currency fluctuations may inevitably impact its financial results. The company is exposed to currency risk in the following areas:

- Transaction exposures, related to anticipated sales and purchases and on-balance-sheet receivables/payables resulting from such transactions.
- Financing exposure arising from foreign currency intercompany and external debt and deposits.
- Translation exposure of net income in foreign entities.
- Translation exposure of foreign currency denominated equity invested in consolidated companies.
- Translation exposure to equity interests in non-functional-currency investments in associates and financial assets at fair value.

It is Signify's policy to reduce the volatility caused by foreign currency movements on its net earnings by hedging the anticipated net exposure of foreign currencies resulting from foreign currency sales and purchases. In general, net anticipated exposures are hedged during a period of 15 months in layers of 20% up to a hedge ratio of 80%, using derivatives.

Signify's policy requires significant committed foreign currency exposures to be fully hedged, generally using forwards. However, not every foreign currency can or shall be hedged as there may be regulatory barriers or prohibitive hedging cost preventing Signify from effectively and/or efficiently hedging its currency exposures. As a result, hedging activities cannot and will not eliminate all currency risks for anticipated and committed transaction exposures.

The following table outlines the estimated nominal value in millions of EUR for transaction exposure and related hedges for Signify's most significant currency exposures:

Estimated committed and anticipated transaction exposure and related hedges in mEUR

	Receivables/sales		Payables/purchases	
	Exposure	Hedges	Exposure	Hedges
Balance as of December 31				
Exposure currency				
CNY	30	(23)	(1,233)	716
USD	187	(144)	(646)	356
GBP	148	(85)	(37)	22
SEK	76	(42)	(4)	2
CHF	59	(32)	-	-
EUR [1]	65	(65)	(12)	12
AUD	49	(26)	(5)	4
SGD	36	(18)	(1)	1
NOK	35	(17)	-	-
CZK	34	(17)	(2)	1
Others	83	(57)	(36)	36
Total 2018	801	(526)	(1,976)	1,151
Total 2017	**356**	**(300)**	**(869)**	**752**

1) EUR exposures in non EUR denominated functional currencies.

Changes in the value of on-balance-sheet foreign currency accounts receivable/payable, as well as the changes in the fair value of the hedges related to these exposures, are reported within cost of goods sold in the Consolidated statements of income. Hedges related to forecasted transactions, where hedge accounting is applied, are accounted for as cash flow hedges. The results from such hedges are deferred in other comprehensive income within equity, to the extent that the hedge is effective.

As of December 31, 2018, a loss of EUR 10 million was deferred in equity as a result of these hedges (2017: gain of EUR 1 million). The result deferred in equity will be released to earnings mostly during 2019 at the time when the related hedged transaction affects the Consolidated statements of income. During 2018, EUR nil million (2017: EUR nil million) was recorded within cost of goods sold in the Consolidated statements 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, 2018 was an unrealized asset of EUR 3 million (2017: asset EUR 8 million). An instantaneous 10% increase in the value of the euro against all currencies, with all other variables held constant, would lead to a decrease of EUR 62 million in the value of the derivatives.

The EUR 62 million decrease includes a loss of EUR 13 million that would impact the income statement, which would largely offset the opposite revaluation effect on the underlying accounts receivable and payable, and the remaining loss of EUR 49 million would be recognized in equity to the extent that the cash flow hedges were effective.

Foreign exchange exposure also arises from intercompany loans and deposits. Where Signify enters into such arrangements the financing is generally provided in the functional currency of the subsidiary. The currency of Signify's external funding and liquid assets is matched with the required financing of subsidiaries either directly through external foreign currency loans and deposits or synthetically by using foreign exchange derivatives. In certain cases, where Signify subsidiaries may also have external foreign currency debt or liquid assets, these exposures are also hedged using foreign exchange derivatives.

Signify does not currently hedge the foreign exchange exposure arising from equity interests measured at fair value through Other comprehensive income and in non-functional currency investments in associates.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices.

Signify is a purchaser of certain base metals, precious metals and energy. Signify could hedge certain commodity price risks using derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity price volatility. As of December 31, 2018, Signify had EUR 2 million of outstanding commodity derivatives (2017: EUR nil 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 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, pre-payments and pledges on assets.

Signify invests available cash and cash equivalents and enters into financial derivative instruments with various financial institutions and is exposed to credit risk with these counterparties. Signify does not enter into any financial derivative instruments to protect against default by financial institutions.

Where possible, Signify requires all financial institutions to complete legally enforceable netting agreements under an International Swap Dealers Association master agreement or otherwise prior to trading, and whenever possible, to have a solid credit rating from generally accepted rating agencies. Signify also regularly monitors the development of the credit risk of its financial counterparties.

As of December 31, 2018, the company held 72% of cash at banks and at hand and short-term deposits in 'A-' or stronger rated banks based on Standard and Poor's rating (2017: 72%).

Maximum credit risk exposure for Signify equals carrying amounts of all financial assets recognized in the Statement of financial position plus off-balance sheet guarantees provided. For more details on the carrying amount and fair value of financial assets refer to the note 32, Fair value of financial assets and liabilities.

Signify's policy is to provide guarantees only in writing. Signify does not stand by other forms of support. As at December 31, 2018, the total fair value of financial guarantees recognized on the Consolidated balance sheets amounted to EUR 1 million (2017: EUR nil million). Off-balance-sheet financial guarantees provided on behalf of third-parties and associated companies as per December 31, 2018 amounted EUR 11 million (2017: EUR 8 million). These guarantees will mature between 2019 and 2023.

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, 2018, Signify had country risk exposure of EUR 1.5 billion in the United States and EUR 969 million in the Netherlands. Countries where the risk exceeds EUR 200 million but was less than EUR 500 million are Belgium (EUR 476 million), Poland (EUR 421 million), China (including Hong Kong EUR 322 million) and Saudi Arabia (EUR 224 million). Countries where the risk exceeded EUR 50 million but was less than EUR 200 million are Spain, Canada, Mexico, India and France. The degree of risk of a country is taken into account when new investments are considered. Signify does not, however, use financial derivative instruments to hedge country risk.

The impending withdrawal of the United Kingdom from the European Union (Brexit) generates uncertainty. For Signify the most considerable impact of Brexit and country risk in general comes in a form of foreign exchange volatility risk embedded in operational results and consequently landing in hedging strategies through changes in the forecasts.

Other insurable risk

Signify is covered for a broad range of losses by global insurance policies in the areas of property damage/business interruption, general and product liability, transport, directors' and officers' liability, employment practice liability, crime and cybersecurity. The counterparty risk related to the insurance companies participating in the above mentioned global insurance policies is actively managed. As a rule, Signify only selects insurance companies with a Moody's and/or Standard & Poor's credit rating of at least 'A'.

To lower exposures and to avoid potential losses, Signify has a global Risk Engineering program in place. The main focus of this program is on property damage and business interruption risks including company interdependencies. Regular on-site assessments take place at Signify locations and business critical suppliers by risk engineers of the insurer in order to provide an accurate assessment of the potential loss and its impact. The results of these assessments are shared across Signify's stakeholders. On-site assessments are carried out against the predefined Risk Engineering standards which are agreed between Signify and the insurers. Recommendations are made in a Risk Improvement report and are monitored centrally. This is the basis for decision-making by the local management of the business as to which recommendations will be implemented.

For all policies, deductibles are in place, which vary from EUR 250 thousand to EUR 1.5 million per occurrence and this variance is designed to differentiate between the existing risk categories within Signify. Above this first layer of working deductibles, Signify operates as per May 27, 2016, its own re-insurance captive, which during 2018 retained EUR 1.5 million per occurrence and EUR 3 million in the aggregate per year for specific property damage and business interruption losses. For general and product liability claims, the captive retention during 2018 is EUR 1.5 million per claim and EUR 3 million in the aggregate. New insurance contracts were signed on December 31, 2018, for the coming year.

32 Fair value of financial assets and liabilities

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.

For cash and cash equivalents, financial assets at amortized cost (before January 1, 2018: held-to-maturity investments, current and non-current accounts receivable, current and non-current loans receivable), financial liabilities at amortized cost (before January 1, 2018: accounts and notes payable, interest accrual, short-term and long-term debt, indemnification receivable and payable from and to Royal Philips) the carrying amounts are reasonable approximation of fair value. Therefore, the fair value disclosure in tabular format for these items has not been presented.

As of December 31, 2018, other non-current financial assets in the Consolidated balance sheets contain EUR 15 million of non-current financial assets measured at amortized cost. As at December 31, 2017 EUR 9 million of long-term loans and receivables and EUR less than 1 million held to maturity investments were included.

The following hierarchy is applied to classify the financial assets and liabilities:

Level 1

Instruments included in Level 1 are comprised primarily of listed equity investments classified as financial assets at fair value via Other comprehensive income (before January 1, 2018 available-for-sale investments), investees and financial assets designated at fair value through profit and loss. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are based on observable market data, the instrument is included in Level 2.

The fair value of derivatives is calculated as the present value of the estimated future cash flows based on observable interest yield curves, basis spread and foreign exchange rates. Please refer to note 2, Significant accounting policies, for further details.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

Fair value hierarchy in mEUR

	Level 1	Level 2	Level 3	Total
Balance as of December 31, 2017				
Derivative financial instruments - assets	-	16	-	16
Fair value through profit and loss - non-current	-	-	1	1
Available-for-sale financial assets	-	-	2	2
Total	**-**	**16**	**3**	**19**
Derivative financial instruments - liabilities	-	(8)	-	(8)
Total	**-**	**(8)**	**-**	**(8)**
Balance as of December 31, 2018				
Financial assets at fair value through profit and loss				
Derivatives designated as hedging instruments	-	28	-	28
Derivatives not designated as hedging instruments	-	-	2	2
Equity instruments at fair value through OCI				
Unquoted equity shares	-	-	2	2
Total	**-**	**28**	**4**	**32**
Financial liabilities at fair value through profit and loss				
Derivatives designated as hedging instruments	-	(22)	-	(22)
Total	**-**	**(22)**	**-**	**(22)**

During 2018 under Level 3, no impairment loss on equity instruments at fair value through Other comprehensive income (before 1 January 2018 available-for-sale financial assets) was recognized in the Other comprehensive income. There were no transfers between the components of equity in 2018. Fair value gain in relation to financial assets at fair value through profit and loss in 2018 was EUR 1 million (2017: EUR 1 million loss).

During 2017 an impairment loss on available-for-sale equity instruments of EUR 1 million was recognized in Consolidated statements of income, EUR 1 million has been transferred from other captions of the Consolidated balance sheets.

Signify uses derivatives to manage its foreign exchange risk. These derivatives are 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.

Financial assets subject to offsetting, enforceable master netting arrangements with financial counterparties or similar agreements in mEUR

	2017	2018
Derivatives		
Gross amounts of recognized financial assets	16	28
Gross amounts of recognized financial liabilities offset in the statement of financial position	-	-
Net amounts of financial assets presented in the statement of financial position	**16**	**28**
Related amounts not offset in the statement of financial position		
• Financial instruments	(6)	(16)
• Cash collateral received	-	-
Net amount	**10**	**12**

Financial liabilities subject to offsetting, enforceable master netting arrangements with financial counterparties or similar agreements in mEUR

	2017	2018
Derivatives		
Gross amounts of recognized financial liabilities	(8)	(22)
Gross amounts of recognized financial assets offset in the statement of financial position	-	-
Net amounts of financial liabilities presented in the statement of financial position	**(8)**	**(22)**
Related amounts not offset in the statement of financial position		
• Financial instruments	6	16
• Cash collateral received	-	-
Net amount	**(2)**	**(6)**

33 Events after the balance sheet date

No subsequent events occurred that are material to Signify.

15 Signify N.V. financial statements

Introduction

Statutory financial statements

The sections Consolidated financial statements and Signify N.V. financial statements contain the statutory financial statements of Signify N.V. (the 'Company').

A description of the activities of the Company, its subsidiaries and Company structure are included in the Consolidated financial statements. The corporate seat of the Company is in Eindhoven, the Netherlands, and its registered office is at High Tech Campus 48, 5656 AE Eindhoven. Signify N.V. is registered in the Commercial Register of the Chamber of Commerce under number 65220692.

A list of all Signify N.V. subsidiaries and affiliated companies, prepared in accordance with the relevant legal requirements (Dutch Civil Code, Book 2, Sections 379 and 414), forms part of the notes to the statutory financial statements and is deposited at the Chamber of Commerce in Eindhoven, Netherlands.

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

Accounting policies applied

The financial statements of the Company included in this section are prepared in accordance with Part 9 of Book 2 of the Dutch Civil Code. Section 362 (8), Book 2, Dutch Civil Code, allows companies that apply IFRS as endorsed by the European Union in their consolidated financial statements to use the same measurement principles in their company financial statements. The Company has prepared these Company financial statements using this provision.

The accounting policies are described in note 2, Significant accounting policies, of the Consolidated financial statements and are deemed incorporated and repeated herein by reference. The implementation of IFRS 9 and IFRS 15 had no impact on the Company financial statements. Investments in subsidiaries in the Company financial statements are accounted for using the equity method.

The balance sheet included in these Company financial statements has been prepared before the appropriation of result.

15.1 Balance sheets before appropriation of results

Balance sheets before appropriation of results in mEUR
As of December 31

			2017		2018
	Non-current assets				
C	Financial fixed assets		3,458		3,737
	Total non-current assets		**3,458**		**3,737**
	Accounts receivable		-		1
	Total current assets		**-**		**1**
	Total assets		**3,458**		**3,738**
D	**Shareholders' equity**				
	Share capital	1		1	
	Share premium	1,975		2,179	
	Legal reserve: currency translation differences	(87)		(29)	
	Legal reserve: cash flow hedges	1		(9)	
	Legal reserve: other	187		187	
	Other reserve: treasury shares	(124)		(65)	
	Other reserve: retained earnings	(6)		(486)	
	Net income	294		263	
	Total shareholders' equity		**2,242**		**2,041**
	Non-current liabilities				
E	Long-term debt		-		740
	Total non-current liabilities		**-**		**740**
	Current liabilities				
E	Short-term debt		1,214		939
	Other current liabilities		3		17
	Total current liabilities		**1,217**		**956**
	Total liabilities and shareholders' equity		**3,458**		**3,738**

15.2 Statements of income

Statements of income in mEUR
For the years ended December 31

	2017	2018
Other expenses	(3)	(1)
Financial expenses	(5)	(5)
Share in results of subsidiaries	301	268
A **Net income**	**294**	**263**

15.3 Statements of changes in equity

Statements of changes in equity in mEUR

			Legal reserves			Other reserves			
	Share capital	Share premium	Currency translation differ- ences	Cash flow hedges	Other	Treasury shares	Retained earnings	Net income	Total share- holders' equity
Balance as of January 1, 2017	**2**	**2,173**	**190**	**4**	**196**	**-**	**(7)**	**146**	**2,704**
Appropriation of prior year result	-	-	-	-	-	-	146	(146)	-
Net income	-	-	-	-	-	-	-	294	294
Net current period change	-	-	(277)	(3)	-	-	1	-	(280)
Legal reserves reclassifications	-	9	-	-	(9)	-	-	-	-
Dividend distributed	-	(11)	-	-	-	-	(146)	-	(157)
Purchase of treasury shares	-	-	-	-	-	(307)	-	-	(307)
Cancellation of treasury shares	(0)	(183)	-	-	-	183	-	-	(0)
Re-issuance of treasury shares	-	(1)	-	-	-	1	-	-	-
Share-based compensation plans	-	10	-	-	-	-	-	-	10
Income tax share-based compensation plans	-	2	-	-	-	-	-	-	2
Funding by (distribution to) Royal Philips [1]	-	(24)	-	-	-	-	-	-	(24)
Balance as of December 31, 2017	**1**	**1,975**	**(87)**	**1**	**187**	**(124)**	**(6)**	**294**	**2,242**
Balance as of January 1, 2018	**1**	**1,975**	**(87)**	**1**	**187**	**(124)**	**(6)**	**294**	**2,242**
Adoption of IFRS 9 (net of tax) [2]	-	-	-	-	-	-	(11)	-	(11)
Restated balance as of January 1, 2018	1	1,975	(87)	1	187	(124)	(17)	294	2,231
Appropriation of prior year result	-	-	-	-	-	-	294	(294)	-
Net income	-	-	-	-	-	-	-	263	263
Net current period change	-	-	58	(10)	-	-	(9)	-	39
Legal reserves reclassifications	-	187	-	-	(1)	-	(187)	-	-
Dividend distributed	-	-	-	-	-	-	(171)	-	(171)
Purchase of treasury shares	-	-	-	-	-	(324)	(15)	-	(339)
Cancellation of treasury shares	(0)	-	-	-	-	380	(380)	-	-
Re-issuance of treasury shares	-	(2)	-	-	-	2	(0)	-	-
Share-based compensation plans	-	20	-	-	-	-	-	-	20
Funding by (distribution to) Royal Philips	-	(1)	-	-	-	-	-	-	(1)
Balance as of December 31, 2018	**1**	**2,179**	**(29)**	**(9)**	**187**	**(65)**	**(486)**	**263**	**2,041**

[1] Includes a negative adjustment of EUR 30 million related to the re-measurement of deferred taxes following the reduction of the US federal income tax rate.
[2] Refer to note 2, Significant accounting policies.

15.4 Notes to the Company financial statements

A Income statement

Share in results of subsidiaries represents the share of the Company in the results of its affiliated companies. Other expenses mainly relate to the remuneration of the directors of the Company and the supervisory board. These costs are partly recharged to the subsidiaries of the Company. Financial expenses mostly relate to the interest paid on the intercompany loan with Signify Holding B.V.

B Audit fees

A summary of Audit fees from Ernst & Young Accountants LLP is shown below.

EY Audit fees in mEUR

	2017	2018
Audit fees [1]	5.3	5.2
• consolidated financial statements	3.5	3.3
• statutory financial statements	1.8	1.9
Audit-related fees	0.4	0.4
• sustainability assurance	0.3	0.3
• other	0.1	0.1
Fees EY in millions of EUR [2]	**5.7**	**5.6**

[1] The audit fees included in 2018 represent the fees in relation to the audit of the 2018 financial statements.
[2] Fees charged by the Dutch organization of EY were EUR 2.4 million (2017: 2.7 million).

C Financial fixed assets

The Company has one directly owned subsidiary, Signify Holding B.V. This investment is presented as a financial fixed asset in the balance sheet 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 balance sheet.

Financial fixed assets in mEUR

	2017	2018
Balance as of January 1	**3,448**	**3,458**
Share in results of subsidiaries	301	268
Dividend received	-	(38)
Translation differences	(277)	58
Other	(14)	(11)
Balance as of December 31	**3,458**	**3,737**

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, 2018, the issued and fully paid share capital consisted of 128,344,238 ordinary shares with a nominal value of EUR 0.01 per share (December 31, 2017: 143,000,000).

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, 2018, this right had not been exercised therefore no preference shares have been issued. On May 16, 2018, the Stichting changed its name from Stichting Continuïteit Philips Lighting to Stichting Continuïteit Signify.

Dividend distribution
A proposal will be submitted to the 2019 Annual General Meeting of Shareholders to pay a dividend of EUR 1.30 per ordinary share, in cash, from the 2018 net income.

In May 2018, the Company settled a dividend of EUR 1.25 per ordinary share, representing a total value of EUR 171 million including costs.

In May 2017, the Company settled a dividend of EUR 1.10 per ordinary share, representing a total value of EUR 157 million including costs.

Restricted, conditional and performance shares
The Company has granted rights to receive common shares in the future (see note 29, Share-based compensation).

Treasury shares
Shares which have been repurchased and are held in Treasury for (i) delivery of shares under the Company's long-term incentive performance share plan and other employee share plans, and (ii) capital reduction purposes, are accounted for as a reduction of shareholders' equity. Treasury shares are recorded at cost, representing the market price on the acquisition date. When issued, shares are removed from treasury shares on a first-in, first-out (FIFO) basis.

When treasury shares are delivered under the Company's share plans, the difference between the market price of the shares delivered and the cost is recorded in retained earnings, the market price is recorded in share premium.

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

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

Outstanding number of shares in number of shares

	2017	2018
Balance as of January 1	**150,000,000**	**139,174,079**
Purchase of treasury shares	(10,850,000)	(13,155,762)
Dellivery of treasury shares	24,079	76,756
Balance as of December 31	**139,174,079**	**126,095,073**

The following table shows the share transactions to cover obligations arising from share-based compensation plans:

Employee share plan transactions

	2017	2018
Shares acquired	1,050,000	1,300,000
Average market price	EUR 33.23	EUR 25.52
Amount paid	EUR 35 million	EUR 33 million
Shares delivered	24,079	76,756
Average price (FIFO)	EUR 31.73	EUR 31.71
Cost of delivered shares	EUR 1 million	EUR 2 million
Total shares in treasury at year-end	**1,025,921**	**2,249,165**
Total cost	**EUR 34 million**	**EUR 65 million**

To reduce the share capital, the following transactions took place:

Share capital transactions

	2017	2018
Shares acquired	9,800,000	11,855,762
Average market price	EUR 27.79	EUR 24.51
Amount paid	EUR 272 million	EUR 291 million
Reduction of capital stock (shares)	7,000,000	14,655,762
Reduction of capital stock	EUR 183 million	EUR 380 million
Total shares in treasury at year-end	**2,800,000**	**-**
Total cost	**EUR 90 million**	**EUR 0 million**

Share repurchases and cancellations as shown in the table above are in line with the Company's announcements made in 2017 and 2018.

Legal reserves

As of December 31, 2018, legal reserves related to currency translation losses of EUR 29 million, unrealized losses related to cash flow hedges of EUR 9 million and included in other, the 'affiliated companies' reserve of EUR 184 million and other reserves of EUR 3 million. In 2018, Other legal reserves were created from retained earnings.

The item 'affiliated companies' reserve relates to the 'wettelijke reserve deelnemingen', which is required by Dutch law. This reserve relates to any legal or economic restrictions on the ability of affiliated companies to transfer funds to the parent company in the form of dividends

As of December 31, 2017, legal reserves related to currency translation losses of EUR 87 million, unrealized gains related to cash flow hedges of EUR 1 million and included in other, the 'affiliated companies' reserve of EUR 184 million and other reserves of EUR 3 million. In 2017, Other legal reserves were created from share premium.

Limitations in the distribution of shareholders' equity

As at December 31, 2018, pursuant to Dutch law, certain limitations exist relating to the distribution of shareholders' equity of EUR 188 million. Such limitations relate to ordinary shares of EUR 1.3 million, legal reserves required by Dutch law of EUR 184 million and other reserves of EUR 3 million. The unrealized losses related to currency translation differences of EUR 29 million and cash flow hedges of EUR 9 million, although qualifying as legal reserves, reduce the distributable amount by their nature.

The total distributable reserves as at December 31, 2018, amounted to EUR 1,853 million (2017: 2,052 million).

As at December 31, 2017, these limitations in distributable reserves were EUR 190 million related to ordinary shares of EUR 1.4 million, included in other, the 'affiliated companies' reserve of EUR 184 million and other reserves of EUR 3 million and unrealized gains related to cash flow hedges of EUR 1 million. The unrealized losses related to currency translation differences of EUR 87 million although qualifying as a legal reserve, reduce the distributable amount by their nature.

E Debt

Long-term debt includes an intercompany loan of EUR 740 million with an interest rate equal to the higher of 6 months EURIBOR or 0% plus 0.65% with a maturity date of May 12, 2021. In December 2017, this loan was part of Short-term debt. After the agreement was extended in February 2018, the loan was reclassified from Short-term to Long-term debt.

Short-term debt relates to other debt to subsidiaries of EUR 939 million (2017: EUR 474 million).

F Employees

The number of persons employed by the Company at year-end 2018 was three (2017: three), all were employed in The Netherlands. For the remuneration of past and present members of both the Board of Management and the Supervisory Board, please refer to note 30, Information on remuneration, which is deemed incorporated and repeated herein by reference.

G Contingent liabilities not appearing in the balance sheet

General guarantees as referred to in Section 403, Book 2, of the Dutch Civil Code, have been given by the Company on behalf of other group companies in the Netherlands. The liabilities of these companies to third parties amounted to EUR 1,085 million as of December 31, 2018, (2017: EUR 1,171 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.

For additional information, please refer to note 27, Contingent liabilities and note 31, Details of treasury and other financial risks, which are deemed incorporated and repeated herein by reference.

H Events after the balance sheet date

In February 2019, upon receiving a dividend from its subsidiary, the Company immediately settled its intercompany loan of EUR 740 million and an amount of EUR 937 million included in Short-term debt.

For the disclosure of other events after the balance sheet date, reference is made to note 33, Events after the balance sheet date.

On February 26, 2019, 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 14, 2019.

February 26, 2019

Board of Management
Eric Rondolat
Stéphane Rougeot
René van Schooten

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

16 Sustainability statements

16.1 Approach to sustainability reporting

Sustainability is central to our company strategy and purpose. We strive to balance economic, social and environmental considerations. Our aim is to maximize long-term value creation along these three dimensions.

We have made our approach towards long-term value creation more transparent by preparing this Annual Report with key elements of the International Integrated Reporting Council's (IIRC) Integrated Reporting framework, while continuing to report in accordance with the GRI Sustainability Reporting Standards.

At the core of our reporting approach is the value creation model. This model shows how our business activities depend on various financial, environmental, and social resources that are converted to outputs. Our activities and their outputs lead to outcomes in terms of the impact made on our stakeholders and society at large. Since 2017, Signify communicates its impacts in monetary terms, enabling a more effective and efficient decision making and gives a holistic view on our most prominent risks and opportunities. It also provides further transparency to our stakeholders on company performance. By publishing the results of our analysis and being transparent on the methodology, we strive to contribute to developing a global standard for impact analysis.

As part of our continuing commitment to the United Nations Sustainable Development Goals (SDGs), we report on our contribution to four SDGs: 7 - Affordable and clean energy; 11 – Sustainable cities and communities; 12 – Responsible consumption and production; and 13 – Climate action. These SDGs link directly to our purpose to create brighter lives and a better world.

Our external auditor Ernst & Young Accountants LLP (EY) has provided reasonable (highest level) assurance on our sustainability performance and sustainability statements in this Integrated Annual Report. With this, Signify is a frontrunner in this field. To read the combined assurance statement, please refer to chapter 17, Combined independent auditor's report, of this Annual Report.

16.1.1 Stakeholder engagement

Through dialogue with key stakeholders, we have gained significant insights into how to create value and anticipate risks. Accordingly, we are better equipped to understand society's needs and translate them into our company strategy and goals. Working closely with key stakeholders strengthens our ability to address their needs and concerns within the context of our organization.

Stakeholders considered most relevant to our success include customers, employees, suppliers, investors, governments, and society. In addition to our strategic conversations with these stakeholders, we hold memberships and are active in many organizations including the Carbon Disclosure Project (CDP), the World Economic Forum (WEF), the Responsible Business Alliance (RBA), and The Climate Group. For more information on the work we perform with stakeholders, please refer to sub-section 16.2.10 Working with stakeholders, of this Annual Report.

Ongoing stakeholder engagement activities (non-exhaustive)

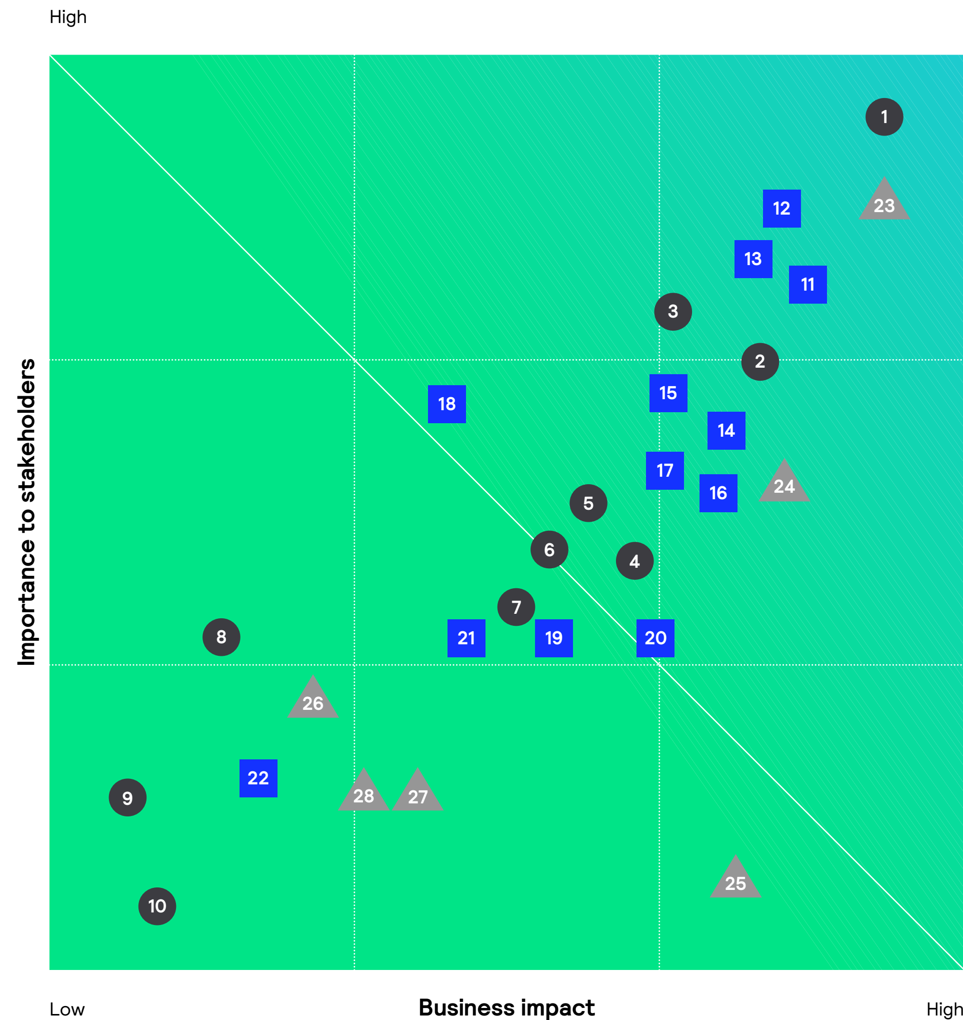
Stakeholder group	Stakeholder engagement processes	Exemplary topics discussed
Customers	Joint (research) projects, business development, lean value chain projects, consumer panels, Net Promoter Scores, training centers, social media, customer surveys, key account management (several times per week)	(Sustainable) revenues- and innovation Satisfaction rates ESG-performance
Employees	Regular meetings, quarterly TEAM Surveys, bi-annual employee development process, quarterly update webinars	Strategic alignment sessions Training & Development Engagement
Investors	Roadshows, investor conferences, investor relations email address, investor surveys, investor webcasts	Strategic alignment sessions ESG-performance
Suppliers	Supplier development and quality activities (including topical training sessions) (4 times per week), supplier forums, industry working groups like EPRM and RBA (4 times per year), and the commodity management, supplier quality and procurement engineering functions	Sustainability performance, Peer-learning
Governments, municipalities	Issues meetings, annual innovation experience, research projects, policy and legislative developments, business development	Sustainable cities Sustainable innovation
Civil society	Partnerships with NGOs (several times per week), cross-sector (multi-stakeholder) projects, supplier sustainability stakeholder day, our social investment program, and the Signify Foundation	Access to light Sustainable operations Sustainable revenues

16.1.2 Material topics and our focus

Through various channels and stakeholder interactions, we identify the environmental, social and governance (ESG) topics most relevant to our business. We use a materiality assessment to take informed decisions. We define materiality along two axes. The horizontal axis captures the significance of each topic in terms of its business impact on our company, both positive and negative. The vertical axis captures the importance of each topic for external stakeholders and how these topics may influence their opinions and decision-making. Assessing both aspects enables us to prioritize and focus on the most relevant issues. The scores on the horizontal axis are based on Signify internal stakeholders. Our materiality assessment was conducted using the GRI Standards' principles for defining report content.

The materiality assessment process uses many sources of information. These include media-search, trend analyses, continuous strategic conversations (see table above) as well as dedicated stakeholder engagement activities. In 2017, Signify led a biennial quantitative survey reaching out to internal and external stakeholders. In 2018, Signify took a qualitative approach, organizing its Stakeholder Day with a selected and diverse group of stakeholders to discuss their interests and expectations regarding Signify's management of impacts on environment, society and economy. Based on the discussions, we analyzed the level of importance (low, medium, high) of specific issues selected by the invited stakeholders.

Materiality matrix



Environmental
1 Products: energy efficiency
2 Operational carbon footprint
3 Carbon footprint of our supply chain
4 Products: hazardous substances
5 Products: circularity
6 Waste management
7 Regulated substances in production processes
8 Products: packaging
9 Water usage
10 Products: weight & materials

Social
11 Product stewardship
12 Human rights in our operations
13 Social responsibility in our supply chain
14 Occupational Health & Safety
15 Living wages
16 Employee engagement
17 Diversity & inclusion
18 Conflict minerals
19 Products: human centric lighting
20 Talent management
21 Access to light
22 Products: basic needs

Governance
23 Business ethics
24 Sustainable innovation
25 Big data and customer privacy
26 Procurement practices
27 Share-performance & pay-out policy
28 Responsible tax policy

As an outcome, three of our material topics reached a medium level on the vertical axis Importance to stakeholders: 8. Products Packaging, 20. Talent Management and 21. Access to light. The results can be seen on matrix above.

Key material topics

	Reference	Boundary
Environmental		
Products: energy efficiency	Sub-section 16.3.1 Sustainable revenues	Use phase
Operational carbon footprint	Sub-section 16.3.3 Carbon footprint and energy	Own operations
Carbon footprint of our supply chain	Sub-section 16.2.8 Supply chain sustainability	Supply chain
Products: Hazardous substances	Sub-section 16.3.1 Sustainable revenues	Use phase
Products: Circularity	Sub-section 16.3.2 Sustainable innovation	Use phase
Waste management	Sub-section 16.3.4 Waste	Own operations
Regulated substances in production processes	Sub-section 16.3.5 Chemical substances in production processes	Own operations
Products: packaging	Sub-section 16.3.2 Sustainable innovation	Use phase
Water usage	Sub-section 16.3.6 Water	Own operations
Products: Weight & materials	Sub-section 16.3.2 Sustainable innovation	Use phase

	Reference	Boundary
Social		
Product stewardship	Sub-section 16.3.1 Sustainable revenues	Use phase
Human rights in our operations	Sub-section 16.2.2 Human rights	Own operations
Social responsibility in our supply chain	Sub-section 16.2.8 Supply chain sustainability	Supply chain
Occupational Health & Safety	Sub-section 16.2.6 Safe and healthy workplace	Own operations
Living wages	Sub-section 16.2.2 Human rights	Own operations
Employee engagement	Sub-section 16.2.3 Employee engagement	Own operations
Diversity & Inclusion	Sub-section 16.2.4 Diversity & Inclusion	Own operations
Conflict minerals	Sub-section 16.2.8 Supply chain sustainability	Supply chain
Products: Human centric lighting	Sub-section 16.3.2 Sustainable innovation	Use phase
Talent management	Sub-section 16.2.5 Leadership & development	Own operations
Access to light	Sub-section 16.2.9 Access to light	Use phase
Products: Basic needs	Sub-section 16.3.2 Sustainable innovation	Use phase

	Reference	Boundary
Governance		
Business ethics / acting with integrity	Sub-section 16.2.7 General Business Principles	Own operations
Sustainable innovation	Sub-section 16.3.2 Sustainable innovation	Own operations
Big data and customer privacy	Section 12.5 Strategic risks	Use phase
Share-performance & pay-out policy	Sections 11.6 Share performance, 11.4 Capital allocation	Own operations
Procurement practices	Sub-section 16.2.8 Supply chain sustainability	Own operations
Responsible tax policy	Section 14.6 [note 12], Income taxes	Own operations

In the sections that follow we explain how we manage social and environmental material topics in our operations, supply chain and products.

16.1.3 Sustainability governance

The Sustainability function, including Environment, Health & Safety, headed by Nicola Kimm, consists of global, regional and local sustainability professionals and falls under the responsibility of the Chief Strategy & Marketing Officer, Bill Bien. Progress is reviewed on a quarterly basis by the Board of Management and the leadership. During these meetings progress on strategic programs is reviewed and corrective actions taken when necessary.

Progress is also reviewed with the Supervisory Board on an annual basis. In addition, the results of our Sustainability programs are communicated on a quarterly basis to all Signify employees.

Sustainability programs are embedded in the Signify organization and ways of working. Examples of departments that implement sustainability programs include innovation, manufacturing, sourcing, and logistics. Targets on sustainability are set both at a corporate level and at a Business Group level.

16.1.4 Program targets

Our sustainability commitments are grouped under our sustainability program Brighter Lives, Better World, launched in September 2016. Targets of this program have been set for a five-year period, until the end of 2020. Changes in targets, policies, definitions or scope are specified annually. There are no changes in targets, policies, definitions or scope to be reported in 2018.

Additionally, to ensure our efforts are in line with the targets of the Paris Agreement, we have set science-based targets in relation to our emissions. For more details, please refer to the sub-section 16.3.3 Carbon footprint and energy, of this Annual Report. As part of our operational carbon footprint program, we committed to 100% renewable energy by 2020 and, as a proud member of the RE100, to using only electricity from renewable sources by 2020.

Program targets

Program	Target 2020
Sustainable revenues	80% of revenues
LED lamps & luminaires	>2 billion LED lamps & luminaires delivered cumulatively (baseline 2015)
Operational carbon footprint	Net 0 kt CO_2 emissions
Electricity	100% of electricity from renewable sources
Waste to landfill	Zero waste to landfill
Health & Safety	Total recordable injury case rate of <0.35
Sustainable Supply Chain	Minimum performance rate of 90%

Science-Based Targets

	Baseline	Target 2030
Carbon emissions from scope 1 and scope 2	2015	70% reduction
Carbon emissions from scope 3 (use of product)	2015	30% reduction

16.1.5 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 supplement to the 2018 Sustainability statements, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads. This supplement also provides a GRI Content Index presenting the overview of the GRI disclosures, a mapping to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and to the E.U. Directive on non-financial information.

New Signify ventures are included in environmental and social disclosures to the extent that the integration process of these ventures has sufficiently been finalized. The normative integration period is two years. Divestures completed before December 31 of the book-year are excluded from environmental and social reporting.

In 2018, Signify re-committed itself to the United Nations Global Compact to advance 10 universal principles in the areas of human rights, labor, the environment, and anti-corruption efforts. This report also serves as our annual Communication on Progress (COP) towards abiding by these principles.

16.2 Social statements

Mark van Bijsterveld, Chief HR Officer Signify

"At Signify, we are leading the transformation in the new age of lighting. To successfully do that, we need the industry's best talent and leaders. Attracting talent, developing people and engaging all our employees around our purpose to 'unlock the extraordinary potential of light for brighter lives and a better world' is at the heart of all that we do. Creating that continuous learning organization, building talent from within and having an inclusive environment where we value diversity and reward performance are therefore essential focus areas in our people strategy. I am proud to be part of this company with such a compelling purpose and strong values aimed at responsible growth. This is how we will continue to lead in a competitive and evolving industry with highly engaged teams."

At Signify, we provide an empowering workplace where people are passionate about taking light beyond illumination to create brighter lives and a better world. With our company purpose and values, we provide our people with a common direction about why we exist, what we value, and how we work. We determined our values by engaging people from across our organization. At Signify, we put our Customer First. We will always be Greater Together by collaborating across teams to build on our strengths and diversity, and work towards our shared goal. We want to be a Game Changer, by innovating to set ourselves apart and continue to lead in the market. We have Passion for Results by working smarter and faster to deliver excellence.

16.2.1 Employment

The total number of Signify employees was 29,237 at the end of 2018, compared to 32,130 at year-end 2017. Approximately 62% of our employees were employed by one of our four Business Groups, focusing on manufacturing and research & development. 25% were employed in one of our markets, focusing on sales & marketing. The remaining 13% worked in corporate functions. Compared to 2017, the number of employees decreased by 9%. Similar to 2017, the reduction in workforce in 2018 was primarily due to our continued optimization of our industrial footprint and focus on reducing indirect costs. In line with our expectations, most leavers were from the factory and warehouse environment. In line with the industry transformation from conventional technologies to LED technologies, connected Lighting systems and services, we expect that the nature of the current workforce will continue to change.

Employees

	2016	2017	2018
Signify total	34,256	32,130	29,237

In 2018, employee turnover amounted to 38% (of which 20% was voluntary).

Talent Management

With more than 29,237 talented and motivated employees all over the world, it is our people who make our strategy a reality. We believe that we will maintain our success by being a world-class talent-builder and promoting people from within. We do this by offering every employee attractive and relevant career development opportunities and by building the leadership pipeline across the organization.

Our approach to talent is to build and develop employees' functional and leadership skills continuously, while attracting new talent where critical capabilities are needed to strengthen our diverse talent pool to achieve our strategic objectives. In 2018 we welcomed 1,619 external talents to help bring our business vision to life.

In line with our talent philosophy to promote talent from within the organization, 75% of executive level vacancies were filled by internal talents. Overall, around one-third of our vacancies were filled with internal candidates, which is in line with the targets we aim for.

A strong global employer brand with local relevance in the digital age

Since 2018, after the launch of our new name Signify, we are strengthening our global employer brand through our Employee Value Proposition. We focus our strategic recruitment marketing investments on the most critical talent segments, to drive our transformation and growth. For example, a special focus was given to the target groups marketing, sales, technology, supply chain, students and alumni with a relevant messaging. Additionally, Signify's new career website was successfully launched and attracted comparable number of candidates.

Employee turnover in 2018 in %

	Staff	Professional	Management	Executives	Total
Involuntary turnover	26%	9%	12%	14%	18%
Voluntary turnover	27%	11%	9%	11%	20%

As part of our global talent acquisition strategy, we continue to attract talent from proven high-quality sources. In 2018, the main sources of hire were:

- **Internal hire –** We fill approximately 30% of our vacancies internally each year.
- **Employee referral –** Historical data has shown that our top-performing hires are those referred by our own employees. Therefore, we encourage them to share their network through a formal employee referral program, which generated close to 15% of our total hires in 2018.
- **Proactively sourced by recruiter –** Our dedicated in-house sourcing function focuses on proactively building talent pipelines and identifying of passive talent.
- **Signify careers website –** Our career website attracts talent by emphasizing our Employer Value Proposition through targeted information sharing and storytelling from our employees and leadership teams.

The Signify global career website can be found at www.careers.signify.com.

16.2.2 Human rights

Acting with integrity is at the heart of Signify's culture and is an integral part of our company's mission and vision. 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 due diligence research to identify the most salient ethical and social principles that govern our relationship with stakeholders worldwide.

The table below shows, in random order, the salient issues identified and the stakeholders they affect, as well as references to the sub-sections that contain the progress that Signify made in addressing these issues.

Salient human rights issues

	Salient human rights issues	Rights holders covered in our programs			Reference to our disclosures
		(3rd party) employees	Direct suppliers	Indirect suppliers	
1	Freedom of association and collective bargaining	•	•		16.2.7: General Business Principles 16.2.8: Supply chain sustainability
2	Safe & Healthy workplace	•	•		16.2.6: Safe and healthy workplace 16.2.8: Supply chain sustainability
3	Working hours	•	•		16.2.7: General Business Principles 16.2.8: Supply chain sustainability
4	Equal employment opportunities and respect	•	•		16.2.4: Diversity & Inclusion 16.2.7: General Business Principles
5	Recognition and reward	•	•		16.2.2: Human Rights 16.2.7: General Business Principles 16.2.8: Supply chain sustainability
6	Forced and child labor		•	•	16.2.8: Supply chain sustainability
7	Employee development	•			16.2.5: Leadership & development 16.2.7: General Business Principles

Human rights risk assessment

Compliance to the Human Rights policy is governed through our General Business Principles (GBP) processes, combined with dedicated steps that help ensure adherence.

In 2018, employees were requested to complete e-learnings or to participate in face-to-face trainings that helped interpret GBP. Dedicated communication campaigns urged everyone to speak-up and report concerns of possible violations. In those campaigns, the availability of our Ethics hotline was also highlighted. This initiative is an integrated and ongoing activity we have embed in our business and business principles, which we redeploy on a regular basis and share with our new employees as part of their on-boarding program.

Based on a country risk assessment, multiple manufacturing locations were considered to have an increased likelihood of policy violations. Since 2017, these locations are subject to a three-year audit and are requested to periodically fill in a dedicated self-assessment on human rights. By 2018, 55% of the locations were audited by a third party. No systemic violations were identified at any of the sites.

Signify has developed programs over the years to prevent Human Rights violations in its supply chain. For more information, please refer to the sub-section 16.2.8, Supply chain sustainability of this Annual Report.

Living wages

At Signify, our people make the difference between good and great results, whether it is in day-to-day operations or year-to-year performance. By ensuring good working conditions, Signify not only aims to provide a fair, safe, and respectful environment, but also an inspiring place to work and grow. Fair remuneration is considered a pre-condition for our employees to flourish. It is our company policy to offer remuneration that meets or exceeds the provisions of all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits.

In 2017, Signify performed an analysis of salaries and benefits for employees globally with respect to living wage, covering the costs of food, housing and transportation, with a 10% margin for other expenses, based on Asia Floor Wage and WageIndicator.
In 2018, we advocated the urgency to investigate living wages to cross-industry peers, creating awareness around this topic.

16.2.3 Employee engagement

Employee engagement is key to our competitive performance and is at the heart of our vision, promoting the best place to work for people who share our passion. Engaged employees are emotionally committed to our company. They help us meet our business goals, and contribute to a dynamic, high performance workplace.

We can only offer an environment in which all our people thrive by maintaining dialogue with our employees in order to understand their needs. Our employees and managers take the time for this dialogue, directly shaping the work environment and our inclusive culture. As a result, high engagement levels not only help Signify to grow but help us to understand our employees' needs in depth and respond to these in turn.

Given that employee feedback and input is so critical, six years ago we introduced a quarterly survey currently known as the Team Survey, with the accompanying promotion of Team Dialogues with People Managers and their teams. This team survey has questions in line with our company purpose and values. This proved to be a positive driver of employee engagement to increase team effectiveness, and, as a result, we will continue to run the Team Survey on a quarterly basis to monitor engagement.

In 2018, we saw the following company results: 86% of our employees underlined that we truly put our Customer First; 87% of our employees acknowledged that we are Greater Together; 87% of our employees felt that we are considered a Game Changer and 79% of our employees agreed that we have Passion for Results.

We have noted that we need to continue to improve in effectiveness and recognition. Initiatives to address our improvement areas are driven at a team level via our Team Dialogues, and in addition we continue to drive progress on these questions during our Quarterly Performance Reviews.

To measure employee satisfaction, the Net Promoter Score (NPS) methodology is used as part of our Team Survey. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. The scoring for this answer is based on a 0 to 10 scale. Those who respond with a score of 9 to 10 are called Promoters and are considered likely to exhibit value-creating behaviors. Those who respond with a score of 0 to 6 are labeled Detractors, and they are believed to be less likely to exhibit the value-creating behaviors. Responses of 7 and 8 are labeled Passives, and their behavior falls in the middle of Promoters and Detractors. The NPS is calculated by subtracting the percentage of employees who are Detractors from the percentage of employees who are Promoters. The NPS can be as low as −100 (everybody is a detractor) or as high as +100 (everybody is a promoter). A positive NPS (i.e. higher than zero) is felt to be good.
In 2018, Team Survey had an average employee response rate of 78% and we recorded an overall NPS score of 13 across the Signify population (2017: 14).

16.2.4 Diversity & Inclusion

At Signify, we believe in building a diverse and inclusive workplace. This means we celebrate and foster an environment in which all people's ideas, knowledge, perspectives, experiences and styles are highly valued. It also means that all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to Signify's success. Signify is a global company, embracing a global mindset and actively promoting and building capability in this area. To that purpose, Signify's leadership has followed a series of workshops on diversity in 2018.

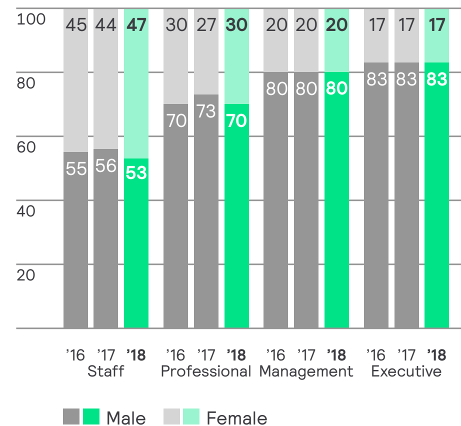
In 2017, we created a network of Diversity & Inclusion champions in our organization consisting of a variety of employees across grades, gender, nationalities, and age representing the different markets, businesses and functions. In 2018, this network continued to promote our inclusive culture, by creating more awareness on local initiatives and sharing best practices around the world.

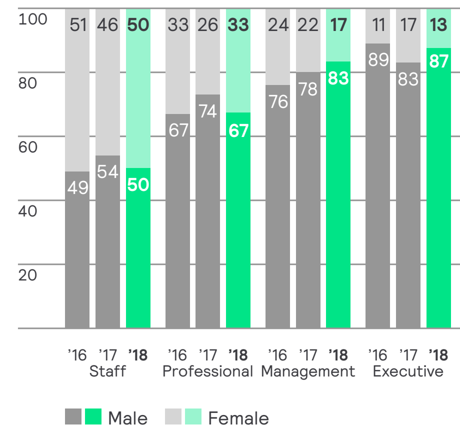
We continually monitor our gender diversity numbers and strive to have a healthy balance in our organization. In 2018, 17% of executives across the company were female. We aspire to maintain a healthy pipeline of female talent among our overall employee population. In 2018, 38.8% of Signify employees were female.

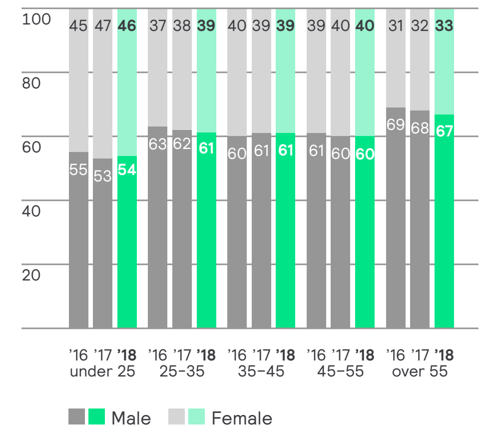
Our internal and external hiring process, as well as our succession planning process, foster a rigorous focus on the broader sense of diversity (background, ethnicity, race, gender, age, education, religion). We aim to build a diverse workforce and an inclusive work environment to continuously improve our capabilities for the future success of Signify. We foster this culture by actively promoting our open internal job market, where all vacancies are posted, and all our employees can apply.

Equal remuneration

Signify has a pay policy with market conform compensation levels in all countries in which Signify operates. Our General Business Principles explicitly condemn all forms of discrimination based on race, color, age, gender, gender identity or expression, sexual orientation, language, religion, political or other opinions, disability, national or social origin or birth. The principle of equal pay for work of equal value is applied in all countries in which Signify operates.







16.2.5 Leadership & development

We consider continuous learning and development to be a key differentiator in enriching the lives and careers of our employees, enabling growth and fulfilment. Embracing new approaches to learning and continuously practicing and applying them in day-to-day life is emphasized in our new learning culture which is being deployed across the organization. The vision of this learning culture is to enable our employees to be successful in the constantly changing connected world and truly unlock their potential for now and in the future.
We believe today's jobs will not remain the same in the future, so our learning interventions aim to prepare our employees to get ready for this new future.
To emphasize the significance of this new learning spirit, learning through disruptive challenges is outlined in our renewed Employee Value Proposition.

To bring this vision to reality, in 2018 we developed a new personalized learning platform, which was launched to employees in January 2019. The platform is the window to access all our learning needs and is available to our employees anytime, anywhere. The Learning@Signify platform is an AI-based tool which records the learner's knowledge interests and patterns and supports in directing relevant inputs and options on a continual basis. The social platform also brings together learners with common interests and actively promotes peer-to-peer and expert driven knowledge sharing in an intuitive and open way.

While the culture of continuous active learning is catching-on in the organization, we also pay special attention to the development process linking to performance during the formal mid-year and end-year performance cycles. The Signify Learning Centre of Expertise (LCoE) offers several new key learning opportunities for employees to build on these periods of reflection and development planning.

Our development methodology is built on the 70/20/10 philosophy, enabling learning on the job through challenging assignments on the job (70% of the time), providing coaching and mentoring through developmental relationships (20% of the time), and offering formally structured learning methods such as classroom teaching and online courses (10% of the time).

Leadership development

Since 2016, we have organized a series of leadership development programs at different levels (first-time managers, mid-level managers, leaders), focused on accelerating the development of our leaders. These programs are aimed at developing our existing leaders who already hold key positions, as well as building a pipeline of future ready leaders who can further take the company to paths of excellence and profitable growth.

Leadership development at Signify is also viewed through the lens of continuous learning embodying the 70-20-10 philosophy explained above, rather than being one-off programs. The latest partnership we have built with Harvard Business School to disseminate a world-class leadership development journey is a great example of ensuring continuous learning discipline in the minds of our top leaders across all levels.

Trainings and courses

To ensure our workforce is well equipped to perform and meet business requirements, each functional area has identified 'fit for future' competency on which the respective area will focus. Through the award-winning Harvard Manage Mentor leadership suite, employees also have access to 40 individual modules on personal development, business and management skills. In 2018, more than 4,600 learning modules and periodicals were offered through the LCoE, collaborating with the best content providers across the world. All learning offerings are now being designed in the form of learning journeys and learning paths to help our employees build excellence in any chosen topic.

Our dedication to always acting with integrity is supported through our learning programs and all employees are required to complete a mandatory course to ensure awareness of and compliance with the content of our General Business Principles.

We continued to partner with online e-learning providers to complement the curriculum of critical programs.
In 2018 more than 210,000 e-learnings were booked through the LCoE compared to 156,000 in 2017 and 90,000 in 2016.
The amount of time registered as spent on learning modules was over 115,000 hours in 2018.

Based on our value creation methodology, Signify has created EUR 9.36 million in value for our society through its employees learning and development programs.

16.2.6 Safe and healthy workplace

Health & Safety performance

Since our founding, we have prioritized the health and wellbeing of people involved with our activities, committing ourselves to provide a safe and healthy workplace for all. The Total Recordable Case (TRC) rate is the central lagging indicator through which we measure our overall safety performance. Targets for this indicator are set and managed at an overall company level, for the individual Business Groups and manufacturing sites. A target of 0.35 for 2020 for the overall company has been set in our Brighter Lives, Better World sustainability program. TRC rate performance management triggers continuous improvement cycles followed up with daily management reviews and business balanced scorecard reviews.

Significant progress was again made in further embedding our safety mind-set, through our injury prevention program, focusing on leading indicators related to at-risk behaviors, unsafe conditions and near-misses.

Activities in 2018 included our annual safety week with accompanying communications campaign, which focused on machine safety and included a competition on injury prevention. We engaged our management teams in behavior observations and deployed a global program on personal protective equipment.

We regret to report one employee fatality in 2018. While on duty, one of our employees passed away after a traffic accident in the Czech Republic. A thorough investigation and root-cause analysis were conducted. We redeployed our safe driving rules to our employees to create strong awareness on safe driving practices.

We recorded 81 TRC cases, a year-on-year improvement of 39% versus the 133 cases in 2017. The TRC rate decreased to 0.29 per 100 FTEs, compared with 0.41 in 2017. This is a 59% improvement from our 2015 baseline and meets our 2020 target on safety. Fourteen of our industrial units went through 2018 without any recordable injuries. There are 5 industrial sites that have had no recordable injuries over the last 3 years – Varginha, Xiamen, Pila Home, Pabianice Lamps branch, Assembly Workshop Copenhagen, while 54 sites had gone more than 500 days injury-free at year-end.

Recordable cases

	2016	2017	2018
Total recordable case rate	0.50	0.41	0.29
Lost workday cases rate	0.22	0.27	0.18
Fatalities	2	1	1

Efforts continued to further reduce injury and illness rates by focusing on preventing injuries. The injury prevention framework was launched in 2015 and has continued its integration into the operational Lean manufacturing framework. All our manufacturing sites have now adopted the key elements of this new framework.

Management system

We have implemented a Health & Safety management system in accordance with the OHSAS-18001 standard at all manufacturing sites. In 2018, 67% of our reporting manufacturing sites were certified to OHSAS-18001. The remaining manufacturing sites have procedures in place which assure compliance with local regulations and Signify policies.

Health and wellbeing initiatives

Apart from our commitment to provide an injury-free workplace, we support our employees with their health and wellbeing. Through diverse initiatives managed by our country offices, our staff are enabled to proactively work on their vitality and personal health. Examples of initiatives which support active health management include:

- periodic health-checks
- discounts to health and sports centers
- free offerings of fresh fruits
- on-site availability of massage therapy and physiotherapy.

In addition, several of our office spaces are using lighting technologies which enable lumen outputs to follow the human circadian rhythm, enabling our employees to see, feel and function better. Several of our locations also provide the ability for each employee to adjust the individual light settings in the workspace with their smartphones, ensuring the brightness and tone of our office lighting aligns with their energy patterns and needs.

16.2.7 General Business Principles

The General Business Principles (GBP) serve as our code of conduct, setting the standard for business conduct for both individual employees and for the company itself. For a description of GBP processes and policies, please refer to section 12.1 Establishing strong risk management environment, of this Annual Report.

In 2018, 186 GBP complaints were filed via the Signify speak up channels. Compared to 2017 (198 complaints), this is a decrease of 6%. This is the first time we have observed a decrease since the overhaul of the GBP in 2014. This decrease is mainly due to the reduction of complaints related to treatment of employees, which represented 48% of the total number of registered complaints in 2018 compared to 54% in 2017.

Most commonly reported concerns

Treatment of employees

Two subcategories, 'Respectful treatment' and 'Equal and fair treatment', made up 73% of the concerns related to 'Treatment of employees' in 2018 (72% in 2017). The 'Respectful treatment' category generally relates to concerns about verbal abuse, (sexual) harassment, and hostile work environments. 'Equal and fair treatment' primarily addresses favoritism and matters of discrimination and unfair treatment in the workplace.

Complaints regarding 'Respectful treatment' decreased compared to 2017, whereas the number of complaints filed in the area of 'Equal and fair treatment' increased. The first decrease can be primarily attributed to the United States, where we also saw a decrease in 'Equal and fair treatment' complaints. This can be explained by the reduction in the number of employees in some locations as well as by our increased efforts in anti-harassment/respectful workplace/GBP trainings. The increase of 'Equal and fair treatment' complaints on a global level can be attributed to 'Other parts of the world'. We believe this demonstrates that our efforts to inform our employees via training sessions and to encourage them to speak up have paid off in regions where the number of complaints was historically very low.

Business integrity

The second most reported type of concern relates to Business integrity. The number of complaints reported in this segment represents 37% of the total cases reported, unchanged compared to 2017.

Security

In 2018, Security has been added as a new segment, following the creation of Signify's global Security department. It includes IT cases. The table below shows that 11 Security cases were lodged in 2018. With the increased attention for security and the awareness campaigns which are organized within Signify around this topic, we expect this number to grow over the coming years.

Breakdown of alleged violations GBP

	2016	2017	2018
Health & Safety	7	2	4
Treatment of employees	97	106	90
• Collective bargaining	2	-	-
• Equal and fair treatment	22	27	34
• Employee development	3	-	1
• Employee privacy	2	1	-
• Employee relations	4	10	8
• Respectful treatment	45	50	32
• Remuneration	6	5	1
• Right to organize	-	-	-
• Working hours	6	4	3
• HR other	7	9	11
Legal	5	6	3
Business integrity	47	73	69
Supply management	3	1	n.a.
Security, including IT	2	-	11
Other	3	10	9
Total	**164**	**198**	**186**

Supply management

Supply management was deleted as a separate segment from the beginning of 2018. For that reason, there will be no future separate reporting on this segment.

Substantiated/unsubstantiated concerns

Of the 186 cases reported in 2018, 73 are open. Of the 113 reports investigated, 33 were ultimately closed having been found to be substantiated, which represents 29.2% of the closed cases.

16.2.8 Supply chain sustainability

The sustainability challenges that we address often require us to engage beyond our own operations. At Signify, we have a direct business relationship with approximately 4,000 product and component suppliers. Managing our supply chain in a responsible way requires a structured and innovative approach due to the wide variety of stakeholders. Insights gained through stakeholder engagement are used to develop our sustainable supply chain strategy. Our programs cover the assessment and development of supplier sustainability performance (audits and training), responsible minerals and carbon disclosure of our supply chain.

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 through the following link: 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. We provide training to support supplier development and capacity building. 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.

Three-year audit cycle

For selected suppliers in risk countries, full audits are performed in a three-year cycle by an independent audit firm. If non-conformances are identified, we require the supplier to draw up a corrective action plan. Our sustainability experts then support the supplier in correcting 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.

Summary of 2018 audit program (three-year cycle, third-party audit)

	Greater China	Rest of the World	Americas	Europe	Total
Total amount of risk suppliers	**200**	**39**	**17**	**1**	**257**
Total no. of audits	76	12	7	1	96
Initial audits	24	8	5	0	37
Continued conformance audits	52	4	2	1	59
Workers employed at sites audited	57,625	5,618	2,559	3,444	69,246

In 2018, we audited 96 of our current risk suppliers, including 59 continued conformance audits with suppliers that were previously in the three-year cycle.
The majority of the audits were done in China. Through these audits, we have reached 69,246 workers employed at supplier production sites.

Implementing corrective actions

When an audit reveals areas of non-conformance, we request that suppliers implement corrective actions. If we notice a delay in the implementation of a corrective action plan, we apply a stratified approach for consequence management. In cases where a supplier is unwilling to improve, we end the business relationship. We work with each supplier to resolve the non-conformities within 90 days where possible.

Results three-year audit cycle program

In 2018 the average audit score of our risk suppliers was 63 (2017: 67). Risk suppliers new to the audit program scored 57 (2017: 64). Dedicated follow-up to close the non-conformances was carried out for the lower scoring suppliers. After implementing the corrective action plans, the average overall audit score in 2018 was 80 out of 100.

The supplier sustainability performance rate represents the percentage of risk suppliers that have an audit score of at least 90 out of 100 points. Our 2018 target on supplier sustainability performance is 90%. In 2018 we achieved a supplier sustainability performance rate of 93% (2017: 95%).

The table on the next page shows the supplier sustainability performance and indicates the conformance level in the audits before suppliers have taken corrective actions. Two suppliers showed outstanding performance during the third-party audit, without any non-conformities found.

Summary of 2018 audit findings before suppliers have taken corrective actions, supplier compliance rate per category of SSD including top 10 non-conformities coverage of the Supplier Sustainability Declaration

Labor	Health & Safety	Environment	Ethics	General
Freely chosen employment 60-80%	**Occupational safety 40-60%**	Environmental permits and reporting 60-80%	Business integrity 80-100%	EICC code 80-100%
Child labor prohibition/ Young worker management 80-100%	**Emergency preparedness 20-40%**	Pollution prevention and resource reduction 80-100%	No improper advantage 80-100%	
Working hours 40-60%	Occupational injury and illness 60-80%	**Hazardous substances 40-60%**	Disclosure of information 80-100%	
Wages and benefits 40-60%	**Industrial hygiene 40-60%**	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%	

Additional audit efforts

In addition to the audits with current risk suppliers, we also audited 31 potential suppliers during the supplier selection process. Potential suppliers need to close any zero-tolerance issues and score at least 80 points before they can work with Signify.

Since 2016, we perform an annual verification for the highest risk suppliers. Depending on the risk category this can either be an on-site audit performed by our sustainability experts or a self-assessment questionnaire. In 2018 we performed 7 onsite annual verifications audits and validated 42 self-assessment questionnaires remotely (2017: 11 onsite annual verification and 28 self-assessment questionnaires). The average initial score in these annual verifications audits was 79 and average score of self-assessment was 91.

Supplier training and development

Since 2017, we include hours of on-site trainings at suppliers. This training is 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 2018, we performed on-site training at 98 supplier sites, which were attended in total by 604 supplier employees.

We also provide classroom training sessions on the RBA Code of Conduct/SSD. Our sustainability experts perform these trainings, supported by training materials provided by RBA. To address emerging issues, we also provide in-depth capability building programs for our suppliers on specific topics. In 2018, we focused these extra trainings on carbon emissions and reduction, related to the CDP Supply Chain program.

We organized 9 training sessions which were attended by 109 suppliers, with a total of 169 attendees.

Reducing water and air pollution levels in China

To reduce the environmental pollution in China, Signify worked with the Chinese Institute of Public & Environmental Affairs (IPE), leveraging their work to engage with our suppliers. For Instance, to help suppliers have better understanding of environmental issues, we organized one IPE training session in December 2018.

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 2018, there were 34 direct suppliers flagged on IPE's list, which was reduced to 7 by this year-end and 27 suppliers have taken actions to remediate and their violation records were removed from IPE website. Signify also requested direct suppliers to engage their own direct suppliers that appear on IPE's list for them to resolve non-conformances.

Responsible sourcing of minerals

Our commitment to sustainable development extends to issues further down in our supply chains, to prevent human rights abuses and financing of conflicts in the extractives sector. Global supply chains in the lighting industry are long and complex, typically with more than seven tiers between the finished product and the source of raw materials used for manufacturing. However, we believe that through strong multi-stakeholder partnerships we can make a difference. The full Signify position on Conflict Minerals is available through the following website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/conflict-minerals.

Conflict Minerals program

In the 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 is available through the following website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/conflict-minerals.

Each year, we invite our main suppliers, based on purchasing spend and metal usage, to fill in the latest version of the Conflict Minerals Template (CMRT). We carefully review the information received via the CMRT from each supplier against our Signify requirements. After having identified the smelters in our supply chain, we publish our Signify Conflict Minerals Declaration, including our smelter list on the company website: https://www.signify.com/global/contact/suppliers/sustainability/our-programs/conflict-minerals. Each year we update the Signify smelter list with new information received from our suppliers.

We are an active member of the Responsible Mineral Initiative (RMI) which runs the audit program to verify the smelters conflict-free status (www.responsiblemineralsinitiative.org). During 2018, good progress was made in validating additional conflict-free smelters. Since the program's inception, we have started to actively direct our supply chain towards these smelters.

In 2018 we invited 131 priority suppliers to fill in the CMRT, among which 30% were new suppliers. This number of suppliers represents 83.5% of our total spend. We approved 91% of the CMRTs against the Signify requirements. We had a total of 268 smelters in our supply chain. We took a firmer stand on having validated smelters in the supply chain than in previous years, and the result shows, as we rose from 91% validated smelters in 2017 to 97% validated smelters in our supply chain in 2018.

The results of the Reasonable Country of Origin Inquiry (RCOI) can be found in the table below. The information for the RCOI is provided by RMI.

Results of the RCOI (Reasonable Country of Origin Inquiry)

	Gold	Tantalum	Tin	Tungsten	Total
Smelters known to source from the DRC and/or adjoining countries	0	25	6	9	40
Smelters known to process only recycled or scrap materials	27	29	25	19	100
Smelters known to source from outside the DRC or adjoining countries	19	37	69	40	165

European Partnership for Responsible Minerals

We are a partner 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. Signify is a member of the EPRM working group that is investigating the expansion of scope of EPRM to other minerals, like cobalt and mica.

Responsible sourcing of cobalt, lithium and mica

To ensure Signify does not indirectly contribute to human rights abuses in cobalt, lithium and mica mining, we started an investigation in 2017, which continued in 2018, to understand which of our suppliers were using these minerals and if so, which of the Signify products would contain such minerals. Cobalt is present in our batteries' supply chain. We use batteries for emergency lighting and remote controls, making up less than 0.5% of our bill of material spend. Despite this, we decided to put our leverage in the industry to good use and engaged on responsible sourcing standards. Our first investigation and initial inquiries of suppliers resulted in the identification of 10 direct suppliers that provide components or parts which contain mica, 13 suppliers for cobalt and 15 for lithium. Signify is committed to continue working hand in hand with its suppliers in this due diligence process and aims to gather final results of this investigation by the end of 2019.

Enabling carbon reduction

We believe that climate change and the growing need for energy consumption require innovative solutions and transformation in the behavior of companies and people. We contribute with energy-efficient products and our carbon-neutral commitment for our own operations.
In addition, we engage our supply chain to reduce its carbon footprint. We proactively initiate, develop and support carbon emission reduction activities in the supply chain through our partnership with the CDP Supply Chain program.

Our target for 2020 is to have at least 250 strategic suppliers annually reporting on scope 1 and scope 2 emissions (direct and indirect greenhouse gas emissions) and 200 strategic suppliers annually reporting on emission reduction activities. In 2018, we invited 281 (200 in 2017) of our strategic suppliers to the program, of which 57% submitted the 2018 CDP questionnaire. This equals 60% of project related spend, which is comparable to 2017 in which we had a coverage of 62% of the spend.

Similar to 2017, we asked our suppliers to focus on basic disclosures of climate change strategy and policies and disclosing scope 1 and scope 2 emissions in 2018.
We supported them with webinar trainings and tools. In 2018, we also provided classroom trainings for our Chinese suppliers in Shanghai and Shenzhen.
The training program was a joint effort of CDP, CQC (a Chinese consultancy firm) and Signify. Seventeen suppliers joined the trainings, with 30 attendees and 50 Signify Suppliers Account Managers joining CDP informative sessions.

In total, our suppliers undertook more than 360 carbon emission projects in 2018, with almost 9 million metric tons of CO_2 emissions saved, which represents an increase of 55% of CO_2 emission saved compared to 2017 (5 million metric tons).
We believe this increase is due to a better understanding of the issue by our suppliers.

In 2018, Signify joined forces with CDP to launch two pilots. A partnership with HSBC Bank enables Signify suppliers to more easily finance carbon emission reduction projects, including facilitating the transition also to more energy efficient lighting. A second partnership with Ecohz is to collaborate with our suppliers in investing in traceable renewable electricity.

CDP reporters per region and topics reported

	Greater China		Rest of the World		Europe		Americas		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Scope 1	70%	78%	94%	80%	76%	85%	75%	76%	75%	80%
Scope 2	56%	52%	94%	68%	67%	63%	75%	76%	66%	62%
Scope 1 & 2	57%	67%	88%	72%	76%	69%	71%	72%	76%	71%
Have a reduction target	52%	57%	88%	68%	71%	62%	63%	60%	63%	61%
Have on-going reduction activities	43%	69%	75%	64%	56%	68%	50%	72%	51%	68%
Climate change opportunities	84%	68%	81%	72%	73%	67%	71%	60%	78%	67%
Climate change risks	86%	57%	81%	64%	71%	60%	71%	52%	79%	58%
Integrated climate change in business strategy	62%	72%	75%	88%	84%	81%	63%	76%	70%	79%
Integrated climate change in risk management	49%	81%	50%	88%	67%	85%	58%	68%	56%	81%
Total amount of reporters	**63**	**58**	**16**	**25**	**45**	**52**	**24**	**25**	**148**	**160**

16.2.9 Access to light

Sharing the power of light – Signify Foundation

Light is a fundamental part of our lives – a driving force for the development of humanity. At the flick of a switch, it transforms dark, empty voids into places where people can work, learn and create. Many of us take this gift for granted. But for millions of people in underserved communities, electric light is inaccessible. For these communities, the productive day ends at sunset. Mobility after dark is limited. Safety and security of the vulnerable is compromised. Children cannot study. Shops cannot do business. Emergency relief workers cannot help people.

The Signify Foundation is dedicated to supporting underprivileged and underserved communities across the world by enabling access to light. When pursuing this mission, the Foundation maps and identifies key actors across the energy and light access value chains. From technology manufacturers, logistics and distribution agencies, to financing partners and training institutions, they are all key to enabling market ecosystems. The Signify Foundation's approach deviates from a pure philanthropic model to an enabler of system change empowering the community to meet local needs with local supply. Its projects contribute to sustainable and affordable light access for all and are underpinned by the creation of gender inclusive livelihood opportunities.

Signify Foundation's projects promote the use of clean technology-based lighting systems that address the entire spectrum of the lighting needs of a community: home lighting, institutional lighting, public lighting and lighting for emergency relief. To light homes and public spaces, the Signify Foundation promotes the use of solar lighting systems which are safer, cleaner and have no recurring fuel costs compared to traditional kerosene lamps.

Signify has a target of reaching 5 million lives with renewably powered lighting and supporting 5,000 people with technical and business skills development by 2020. Through our activities in 2018, we lit 1,540,000 lives and supported 2,656 entrepreneurs and technicians.

In 2018, the Signify Foundation funded 21 projects across its three focus areas:

Lighting Lives

Enabling access to relevant, affordable and sustainable lighting technology for off-grid and partial grid communities to help extend the productive day.

An example is the Kampung Terang Hemat Energy (Bright Energy-Saving Villages), a program in Indonesia, where approximately 25 villages in North Sumatra, East Bali, Central Kalimanta, and Maluku will be provided with innovative, solar-based LED lighting technology over a two-year execution time frame. This program was awarded the "Best of the Best" accolade in the Corporate Philanthropy category at the 2018 Indonesia's Best Corporate Social Initiatives Award by Mix magazine.

Lighting Entrepreneurs

Better lighting stimulates productivity and entrepreneurship. However, Lighting Lives can only have a long-term impact if communities have the skills to operate and maintain the lighting installation provided. In addition to this technical training, the Signify Foundation helps entrepreneurs develop business skills to enable the development and strengthening of channels of last mile distribution.

Sustainable interventions are founded on capacity and skills development, which is why Enlight Institute in Uganda is a key partner for Signify Foundation. With the Foundation's support, Enlight offers an eight-week solar technician course to equip women and men in both rural areas as well as in the country's capital, Kampala, with the necessary skills set to find a job as solar technician and meet the increasing demand for this expertise.

Humanitarian Lighting

When a humanitarian crisis strikes, light is critical in delivering emergency assistance. Without adequate illumination, aid workers cannot deliver care or supplies after nightfall. In these situations, light doesn't just assist relief efforts – it saves lives. By funding lighting technology for humanitarian projects, we aim to help aid workers and engineers to see clearly while increasing safety and security for those who are made even more vulnerable in disaster contexts.

Since August 2017, 680,000 forcibly-displaced Rohingya people have been sheltering in makeshift settlements across Cox's Bazar in Bangladesh. The new arrivals are vulnerable, and include pregnant and nursing mothers, and children separated from their families. BRAC, Bangladesh was one of the earliest responders on the ground who identified the need for solar lighting. With support from the Foundation, BRAC is distributing solar lanterns to more than 46,000 Rohingya families in Bangladesh. The solar lanterns will significantly improve the living conditions in the refugees' makeshift shelters and especially improve the safety and security of women and children at night.

Employee volunteering and giving – Corporate Social Responsibility at Signify

Signify also has its own corporate social responsibility program that promotes employee volunteering and employee giving through locally relevant initiatives across the geographies where we operate. In 2018, this included the retrofitting of lighting for schools in Pakistan where 17 Signify Pakistan volunteers delivered classes on energy efficiency and its potential as a climate change mitigator. Asad Jafar, Country Manager of Pakistan, says “It’s a simple and effective way of bringing the message to these children who are future leaders and will be making key political and business decisions. It is an immensely satisfying team activity, where we get so much in return, a tremendous sense of pride in the company and comradery with each other.”

At Signify, we also continue to invest in the Base of the Pyramid social venture, which works outside of the commercial framework of the organization with the objective of understanding and responding to the specific lighting needs of underserved communities. Continued responsiveness to user feedback led to the design and the release in 2018 of a first in class battery replaceable solar lantern, extending the life time of the product beyond its battery life. This innovation is part of a roadmap for solar lighting products that Signify intends to launch in the future to answer the needs of base of the pyramid communities.

16.2.10 Working with stakeholders

To advance our Brighter Lives, Better World program and commitments to the SGDs, Signify has worked with numerous strategic partners this year.

In 2018, a number of international stakeholders called for enhanced action on sustainable development and specifically on tackling climate change. Large events took place in the run-up to the International Panel on Climate Change’s 1.5˚C report. The report showed urgent action is needed to keep global warming below 2˚C and as close to 1.5˚C as possible. Signify contributed to the global dialogue on climate change by joining the World Green Building Council event in Toronto, the Global Climate Action Summit organized by California governor Jerry Brown and former NYC mayor Michael Bloomberg in San Francisco and the Climate Week New York City.

In this series of events, we highlighted the benefits of accelerated renovation of existing infrastructure in cities with an emphasis on buildings and street lighting. In 2018, we also made further commitment to our 2020 carbon neutral target by joining the Science Based Targets Initiative. Additionally, Signify became one of the first three signatories to the Net Zero Carbon Buildings Initiative and joined The Climate Group’s EV100 program to continue our transition to carbon neutrality and renewable energy for our buildings and corporate car fleet.

We are honored to be a member of the UN Science-Policy-Business steering committee, a body advising the world’s environmental ministers on sustainable development and climate change, which will convene for the 4th UN Environmental Assembly in Nairobi in March 2019. At the UN Earth Innovation Forum (UNEA) held on June 5, 2018 in Tallinn, Estonia we co-launched a thought leadership report that we developed with the Rocky Mountain Institute. The “Energy Efficiency and Electric Vehicles” report covers scenarios and recommendations on how accelerated renovation of buildings can pave the way for the electric vehicles’ revolution, while keeping the world below 2˚C of global warming. The report was also launched at the UN Earth Innovation Summit on September 5 in Tallinn. Estonia currently chairs the UN Environmental Assembly. The recommendations from this report will be one of the subjects on the table.

We also continued our support to other existing initiatives and partnerships. Our CEO, Eric Rondolat, participated in the World Economic Forum in Davos, in the CEO Climate Leadership Group, and recently spoke at the China International Import Expo 2018 where he was introduced to President Xi Jinping. Other conferences include the ninth Clean Energy Ministerial (CEM9) in Copenhagen and the UN Climate Change Conference COP24 in Katowice, Poland. As a member of the International Energy Agency’s Energy Efficiency Industry Advisory Board we contributed to the strong messaging of “Energy Efficiency 2018”, the latest in the IEA’s market report series.

16.3 Environmental statements

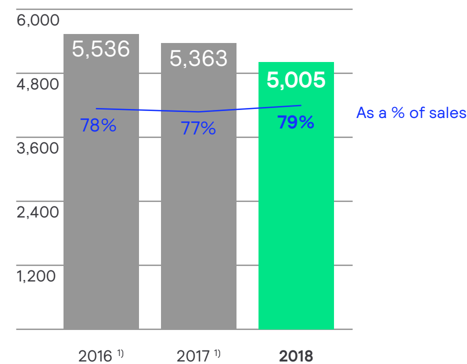
For decades, we have focused on minimizing the environmental impact of our operations. This integrated report serves as our twentieth annual update of the progress we have made in this area. At Signify, we manage our environmental responsibility by setting ambitious targets, developing and implementing detailed plans and reporting on our progress. We continuously strive for excellence in environmental management. In 2018, we continued our efforts to align with the recommendations set out by the Financial Stability Board (FSB) and the industry-led Task Force on Climate-related Financial Disclosures (TCFD). The official approval of our science-based targets by the Science Based Targets Initiative confirms that our commitments are in line with achieving the Paris goal.

All our environmental policies and management framework are based on the international ISO-14001 standard. In 2018, 79% of our manufacturing sites were certified to ISO-14001.

16.3.1 Sustainable revenues

Sustainable revenues are defined as products with an energy efficiency of 66 lm/W and higher as well as all systems and services, as these provide additional energy savings. Energy is selected as the key criterion, as this sustainable focal area consistently has the highest environmental impact, as shown through life cycle assessment. In 2018, sustainable revenues grew to an all-time high of 79%.

Sustainable revenues in mEUR



1) Our sustainable revenues definition is reviewed annually and was made more ambitious in 2018. In 2017, all LED were considered sustainable and in 2018, the energy efficiency criterion was also applied to the LED part of our portfolio. 2016 and 2017 results are consistent with those reported in previous annual reports.

Two billion LED lamps & luminaires

Approximately 13% of the world's electricity is used for lighting. Through our digital LED technology, Signify offers light that is up to 80% more energy efficient, compared with conventional technologies, which are still commonly used. For this reason, we have pledged to deliver two billion LED lamps & luminaires by 2020 (starting from 2015). When combined with digitally connected systems, we can save energy equivalent to that generated by 60 medium-sized coal-fired power stations (equivalent to emissions from 24 million cars) by 2020.

At the end of 2018, Signify delivered 1,749 million LED lamps and luminaires. Considering the environmental impact of avoided carbon emissions, our LED lamps & luminaires delivered thus far have already saved 43,701 kilotonnes in CO_2, equalling EUR 4,370 million in societal costs.

LED lamps & luminaires delivered in millions of units

	2016	2017	2018	Total
LED lamps delivered	371	568	552	1,749

Product quality

Signify has a strong commitment to responsible product stewardship.
The Signify quality management system is ISO 9001:2015 certified, covering all business activities. When it comes to quality, we believe prevention of defects is better than cure. This is reflected in our structured approach towards the selection and qualification of suppliers, manufacturing, installation and service of our products and services. In those rare cases where defects are found in our products that have been brought to market, Signify takes a proactive approach and appropriate actions, which may include a product recall, especially if health and safety are of concern. Signify has a robust process in place to ensure impacted constituents are informed. In 2018, no product safety issues were found that resulted in a fine or penalty.

Signify to illuminate up to 15 of London's iconic bridges by 2022

Signify will supply its Interact Landmark system to centrally manage the 22.000 Philips Color Kinetics LED luminaires that will light up the city's famous River Thames bridges with dynamic, artistic lighting effects. Signify will also provide lifecycle services for the next 10 years. A reduction in 50-70% in the annual electricity consumption for architectural lighting has been estimated compared with conventional lighting. Additionally, Interact Landmark will detect and manage faults, optimize maintenance, improve asset management and thereby reduce costs.

Sustainable design and 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 regulations. We require all our suppliers to communicate all substances in their components and to comply with the stipulations that we have listed in our Regulated Substance List (RSL), which in many cases goes beyond legislation. In 2018, we continued to engage with our suppliers, further rolling out the publicly available BOMcheck tool, in which components and substances can be registered.

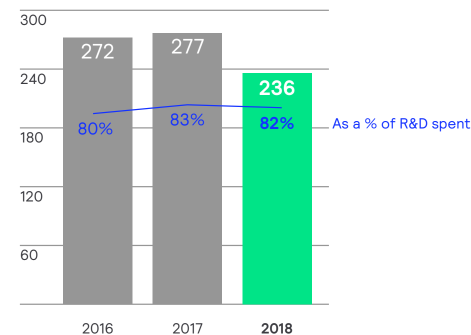
16.3.2 Sustainable innovation

Our sustainable products and systems must demonstrate proven measurable benefits in one or more of the eight sustainable focal areas (SFAs) below compared to the relevant annually updated benchmark.
Our eight SFAs are:

- **Energy –** increasing energy efficiency of products, systems and services
- **Packaging –** reducing packaging weight / volume and increasing recycled content
- **Substances –** eliminating harmful substances
- **Weight & materials –** reducing product weight and selecting sustainable materials
- **Circularity –** cycling products, components and materials at the highest utility and value
- **Access to light –** providing light in off-grid and underserviced Base of the Pyramid areas
- **Basic needs –** lighting that increases productivity of food by ≥10% vs benchmark
- **Human centric lighting –** providing light which increases well-being and performance

In 2018, we invested EUR 236 million in sustainable innovation which represents 82% of Signify R&D expenses (83% in 2017). Increasing investments in digital lighting solutions, cloud computing and circular economy designs have led to further improvements in the areas of energy and material resource efficiency (circularity). At the same time, sustainable innovation also addresses social needs such as Access to light, Basic needs and Human Centric Lighting.

Sustainable innovation in mEUR



Philips GreenPower LED enables predictable growth and energy saving

Agro-Invest set out to build a very large new greenhouse for tomatoes and cucumbers. Our customer wanted innovative technology that was able of increasing yields in the darker months and significantly reduce the energy usage. To realize the right lighting, Philips GreenPower LED toplighting and interlighting was installed and Signify provides full technical and agricultural support for the project. The LED installation enables year-round growing, help boost yields – especially in winter – and saves 50% on energy costs compared to conventional high-pressure sodium lighting.

Circular economy

At Signify, we consider the transition to a circular economy as a key enabler in society's pursuit of a more sustainable world. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using material resources more effectively.

In this sixth year of our circular economy program, five more families of 'Circular Economy ready' luminaires were brought to market.

Circular lighting in the Antwerp Management School

The Antwerp Management School has engaged in a 10-year Circular lighting contract. Signify will retain responsibility for the lighting performance and for optimal use and reuse of products and materials. Signify applied its TrueLine LED first-of-a-kind 'Circular Economy ready' luminaires, which were designed for traceability, serviceability, recycling, upgrade options, as well as parts harvesting. Signify's Circular Lighting proposal is part of a larger Circular concept at AMS – as they opted not only for Light as a Service, but also for other circular projects (such as for audio or waste). The entire circular concept will enable Antwerp Management School to be one of the sustainable universities in the center of a densely populated city.

Human Centric Lighting

Scientific evidence proves that lighting does much more than provide illumination. Researchers have found that light meets both visual and non-visual needs and has the potential to provide visual, biological and emotional benefits.

These insights help us develop commercial lighting solutions that are targeted at enhancing vision, well-being, and performance by applying an in-depth knowledge of science, customers and user needs, supporting our mission to bring light beyond illumination.

In 2018, we continued to innovate in Human Centric Lighting solutions – helping people to see, feel, and function better.

Human Centric Lighting at Innogy, Prague

Innogy HQ Prague office went from a traditional closed office environment to an open plan and aimed for a best-in-class work environment for its 550 office employees. Our networked LED lighting system was tuned to support the circadian rhythms of Innogy's office staff, including stimulating their energy levels at set times in the day. This people centric lighting design enhances workplace comfort and vision, supporting a sense of wellbeing and performance. It positively correlates with higher employee engagement and it saves around 50% on electricity consumption compared to its previous fluorescent lighting.

16.3.3 Carbon footprint and energy

At Signify, we have long focused on increasing the energy efficiency of our products and reducing energy use in our production processes. We acknowledge the findings of the Intergovernmental Panel on Climate Change (IPCC) and believe we have an important role to play in the transformation towards a low-carbon economy. In our Brighter Lives, Better World sustainability program, reduction of CO_2 emissions and energy use are central to our 2020 sustainability commitments. We are committed to becoming 100% carbon neutral in our operations and sourcing only renewable electricity by 2020. Through substantial efforts in various departments, we intend to continue our carbon reduction efforts to make our operational footprint carbon neutral. This consists of manufacturing, non-industrial operations, logistics, and business travel.

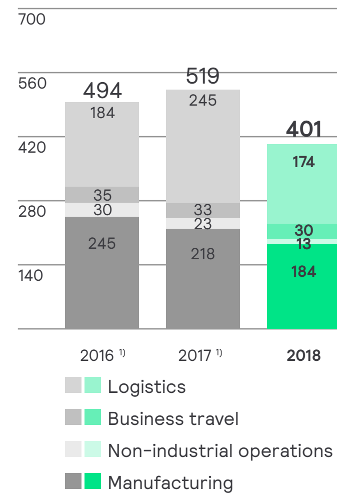
The Paris Agreement and science-based targets

To ensure our efforts are in line with the targets set out in the Paris Agreement, we have set science-based targets. The target for 2030 approved by the Science Based Targets Initiative are:

- Signify commits to reduce 70% of absolute scope 1 and 2 GHG emissions by 2030 (2015 base-year)
- Signify commits to reduce 30% of absolute scope 3 GHG emissions from use of sold products by 2030 (2015 base-year)

Beyond setting science based-targets, Signify deploys numerous activities to align our operations with the low-carbon pathway needed to live within the planet's limits. In 2018, we joined the Climate Group's EV100 Initiative and committed to operate a lease fleet of hybrid and fully electric vehicles (EVs) by 2030. We are making our freight transport climate compatible and fostering cross-industry collaboration as an active member of Clean Cargo and the WBCSD Transforming Heavy Transport project. Finally, our pledge to the World Green Building Council's Net Zero Carbon Buildings commitment as well as our aim to deliver 2 billion LED lamps and luminaires by 2020 are aimed at increasing energy efficiency, decreasing global electricity consumption and reducing global carbon footprint.

Operational carbon footprint in kilotonnes



[1] Operational carbon footprint for 2016 and 2017 has been restated using Clean Cargo carrier specific CO_2 emission factors.

In 2018, our total CO_2 emissions were 401 kilotonnes, a 23% decrease year-on-year. This was due mainly to a reduction in emissions from logistics and manufacturing activities. Our operational CO_2 efficiency in tonnes of CO_2-equivalent per million-euro sales was 63 in 2018, a 15% decline compared to 2017.

Through our partnership with the South Pole Group, we initiated several strategic projects that support forest conservation in Colombia and Zimbabwe and increased the availability of renewable electricity through wind farms in India, and small-scale hydro plants in China and Vietnam. Through our carbon offsetting projects, we contribute to conserving and restoring forests.

Carbon neutral operations in 9 markets

Signify has been working to reduce carbon emissions in the US and Canada for decades, implementing energy-efficiency improvements in its factories, utilizing office space more efficiently and increasing the use of renewable electricity to 100% in 2016 through our power purchase agreement with Hidalgo wind farm. We now compensate for the remaining carbon emissions from industrial operations, offices, warehouses, business travel and logistics in these markets, making them our eighth and ninth carbon neutral markets globally.

The ecosystem services which these forests provide are extensive and contribute to enhancing or maintaining the biodiversity in those areas. Additionally, these projects enabled us to prevent 255 kilotonnes of CO_2 being emitted into the atmosphere, thereby offsetting 64% of our own emissions, resulting in a net carbon footprint of 146 kilotonnes which is 49% lower than our net CO_2 footprint in 2017.

Manufacturing

Accounting for 46% of our operational carbon footprint, CO_2 emissions from manufacturing decreased 16%. This was achieved mainly due to operational changes and efficiency improvements, for instance relating to optimized heating systems.

Non-industrial operations

CO_2 emissions from non-industrial operations (offices, warehouses) represent 3% of our total emissions. In 2018, our emissions decreased by 43% year-on-year, primarily through increased renewable electricity usage and energy efficiency improvements.

Logistics

Overall, CO_2 emissions from logistics, which make up 43% of our total, decreased by 29%. Given the sharp increase in emissions from air freight in 2017, we successfully focused on reducing emissions from this area in 2018, achieving a 50% drop year-on-year. This was accomplished by implementing a stricter approval process and by actively promoting alternatives, such as shipping by fast ocean transport or train. In 2018, we joined the Clean Cargo buyer-supplier forum to show our commitment to sustainable logistics. Through our membership we gained access to accurate carrier CO_2 emissions factors. This means historic results for ocean freight emissions have been restated using these carrier-specific CO_2 emission factors.

Business travel

Our CO_2 emissions relating to business travel account for 8% of our operational carbon footprint. We managed a 9% reduction compared to 2017. We maintained our stringent travel policy, reducing emission from air travel by 6%. Emissions from lease cars were also cut, due to a smaller and more fuel-efficient fleet compared to 2017.

Operational carbon footprint in kilotonnes CO_2-equivalent

	2016 [1]	2017 [1]	2018
Scope 1	187	185	172
Scope 2 (market based)	88	56	25
Scope 3 business travel	35	33	30
Scope 3 logistics	184	245	174
Of which			
• Air transport	77	143	71
• Road transport	50	49	51
• Ocean transport	57	53	52
Total Signify	**494**	**519**	**401**
Scope 2 (location based)	**236**	**242**	**202**

[1] Operational carbon footprint for 2016 and 2017 has been restated using Clean Cargo carrier specific CO_2 emission factors.

Energy use in operations

Total energy usage amounted to 4,054 terajoules in 2018, a decrease of 8% year-on-year. This decrease was caused by operational changes, favorable weather conditions and energy efficiency improvements in our factories.
Our operational energy efficiency in terajoules per million-euro sales was 0.64 in 2018, up by 2% compared to 2017.

Electricity

In 2018, we procured 89% of our electricity from renewable sources. All electricity consumed by our operations in the United States, Canada, Europe, Middle East, and China is sourced from renewable sources or matched with Energy Attribute Certificates (EACs). Approximately 51% of our renewable electricity is contracted via our energy providers. The remaining 49% was sourced through the procurement of renewable energy certificates, of which 47% came from our participation in power purchase agreements.

16.3.4 Waste

Signify aims to use and manage the planet's limited resources in a sustainable way. For our products, we incorporated circular economy design rules. These design rules optimize products for easy recycling, spare parts harvesting, refurbishment and technical and economic lifetime extension.

In our operations, we develop solutions to effectively reduce, re-use and recycle the waste in our sites, as much as possible.

Zero waste to landfill program

In 2016, we launched a five-year program that targets all our manufacturing sites to send zero waste to landfill by 2020. In 2018, we were able to effectively reduce the amount of waste sent to landfill, as defined by our commitment, by 17% compared to 2017. A number of waste categories have been excluded from this commitment, such as chemical or hazardous waste, which is mandatory to bring to landfill under legislative regulation. For more details on our commitment scope, please refer to our 2018 Sustainability statements, available on our Sustainability downloads webpage: https://www.signify.com/global/sustainability/downloads.

Our recycling programs address waste arising from manufacturing activities and offices, such as glass or canteen waste, as well as from suppliers, such as packaging materials.

In 2018, total waste amounted to 41 kilotonnes. This is a decrease of 8% compared to 2017. This decrease was partly due to the optimization of our industrial footprint, and partly achieved via our zero waste to landfill activities. The focus given to increase the waste recycling rate has also enabled our sites to identify new opportunities for reducing their overall amount of waste.

Total manufacturing waste consists of waste that is delivered for recycling, incineration or landfill. 82% of total waste was recycled.

Manufacturing waste in kilotonnes

	2016	2017 [1]	2018
Recycled	34.0 (85%)	37.4 (84%)	33.3 (82%)
Incinerated	2.9 (7%)	2.7 (6%)	3.0 (7%)
Landfilled	3.0 (8%)	4.3 (10%)	4.5 (11%)
In scope of commitment	2.4 (6%)	2.9 (6%)	2.4 (6%)
Total waste	**39.9**	**44.4**	**40.8**

Manufacturing waste by category in kilotonnes

	2016	2017 [1]	2018
Glass	11.5	13.5	12.4
Paper/cardboard	7.7	8.3	7.4
Metal	6.5	6.9	6.8
Wood	3.7	4.2	4.2
General	2.9	3.4	2.8
Chemical	4.3	4.9	3.9
Other	3.3	3.2	3.3
Total waste	**39.9**	**44.4**	**40.8**

[1] Manufacturing waste for 2017 has been restated to include one additional waste flow at our Riyadh factory.

16.3.5 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.

Based on our continuous monitoring of chemicals usage in manufacturing sites, in 2010 we developed a program to start the phase-out of several hazardous substances.

Total emissions from mercury and mercury compounds totalled 4 kilograms in 2018. The target to achieve emissions As Low As Reasonably Achievable (ALARA) was met in 2015. Signify continues to closely monitor usage, emissions and exposure, to determine if further improvement opportunities are possible.

Emissions from mercury

Since 2012, we have been able to drastically decrease the emissions from mercury by changing our production processes and through replacing liquid mercury with solid-state mercury. Since then, mercury emissions have remained stable.

Emissions from mercury in kilograms

	2016	2017	2018
Mercury and mercury compounds	6	5	4

Emissions from volatile organic compounds (VOCs) in lacquering processes

Due to improvements in operations relating to the coating of products, the application of targeted VOCs was extensively reduced in 2018, and is now limited to small quantities of hand-sprayed, customized order batches. Signify continues to phase out styrene in resins used for impregnation by replacing coil ballasts with electronic ballasts.

Additionally, by changing our processes from lacquering to powder coating, Signify reduced the emissions of Toluene.

Emissions of VOCs in lacquering processes

	2016	2017 [1]	2018
Lead and lead compounds	3	2	1
Styrene	1,119	909	653
Toluene	99	101	65
Xylene	695	670	744
Emissions from category 2 substances	**1,916**	**1,682**	**1,463**

[1] Emissions of Toluene and Xylene have been restated to include emissions from our Riyadh factory.

16.3.6 Water

Signify recognizes the growing importance of water 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, several of our manufacturing facilities still rely on water for production and may face water scarcity risks as they are located in water stress areas such as Saudi Arabia, Mexico and the United States. 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 50% of our global water consumption to be in regions classified as having extremely high- or high-water scarcity. While some of our facilities have reuse and recycling measures in place, we will continue to implement and identify new and more efficient water saving measures as well as continuing our transition to technology and business models which have a lower dependency on water.

Total water intake in 2018 was 1,266 thousands of m^3, compared to 1,321 thousands of m^3 in 2017. This decrease was due mainly to lower production volumes in those sites where water is used for cooling purposes. In addition, a decrease in usage was realized through operational changes and a optimization of our industrial footprint. 42% of our sites state that water is primarily used for domestic purposes.

Water intake in thousands of m^3

	2016	2017	2018
Total water	1,451	1,321	1,266

16.3.7 Environmental incidents

In 2018, Signify experienced no significant environmental incidents. However, one instance of non-compliance related to spill was reported. This incident was resolved in a satisfactorily manner and did not result in any fine.

17 Combined independent auditor's report

Combined independent auditor's report on the 2018 financial statements and sustainability information

To: the annual general meeting of shareholders and Supervisory Board of Signify N.V.

Our Opinions

We have audited the financial statements 2018 of Signify N.V. (hereafter: the Company) based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Signify N.V. as at December 31, 2018 and of its result and its cash flows for 2018 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, 2018 and of its result for 2018 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 2018 of Signify N.V. based in Eindhoven, the Netherlands (hereafter: the annual report). The scope is described in the section Our Scope. An audit is aimed at obtaining a reasonable level of assurance.

In our opinion, the sustainability information presents, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability
- the thereto related events and achievements for the year 2018

in accordance with the Sustainability Reporting Standards (option Comprehensive) of the Global Reporting Initiative (GRI) and the applied supplemental reporting criteria as disclosed in section 16.1 Approach to sustainability reporting of the annual report 2018 of Signify N.V.

Basis for our Opinions

We performed our audit on the financial statements and the sustainability information in accordance with Dutch law, including the Dutch Standards on Auditing and the Dutch Standard 3810N "Assurance engagements relating to sustainability reports", which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information". Our responsibilities under those standards are further described in the section Our responsibilities in this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our independence

We are independent of Signify N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the “Wet toezicht accountantsorganisaties” (Wta, Audit firms supervision act), the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. This includes that we do not perform any activities that could result in a conflict of interest with our independent audit engagements. Furthermore, we have complied with the “Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)”.

Our scope

Our engagements scope

The consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2018
- the following statements for 2018: the consolidated statements of income, comprehensive income, cash flows and changes in equity
- the notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- the balance sheet as at December 31, 2018
- the statements of income and changes in equity for 2018
- the notes comprising a summary of the accounting policies and other explanatory information

The sustainability information is included in chapter 3, Creating value, section 4.2 Sustainability performance and chapter 16, Sustainability statements, of the annual report.

Limitations to the scope of our audit engagement comprising the sustainability information

Unexamined prospective information

The sustainability information includes prospective information, such as goals, strategy, plans, forecasts, expectations and estimates. Prospective information relates to events and actions that have not yet occurred and may not occur. Actual results are likely to be different from the prospective information since anticipated events frequently do not occur as expected and the variation could be material. Therefore, we do not provide assurance on the prospective information in the sustainability information.

Unaudited references to external sources

The references to external sources or websites in the sustainability information, with the exception of the Methodology for calculating societal impact and the Supplement to the 2018 sustainability statements (supplement 1 and 2), are not part of the sustainability information as audited by us. We therefore do not provide assurance on this information.

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 can arise from fraud or error and 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 audit procedures and the evaluation of the effect of identified misstatements on our opinions.

Financial statements

For the audit of the financial statements our considerations regarding the materiality are as follows:

Materiality	€ 26 million (2017: € 26 million)
Benchmark used	5% of adjusted profit before taxes
Additional explanation	Based on our professional judgment we consider earnings-based measures as the most appropriate basis to determine materiality. Adjustments are made to profit before taxes for elements which are not directly related to the operational performance of the company as disclosed on page 171 of the annual report.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We have agreed with the supervisory board that misstatements in excess of € 1.3 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.

Our scope for the group audit of the financial statements

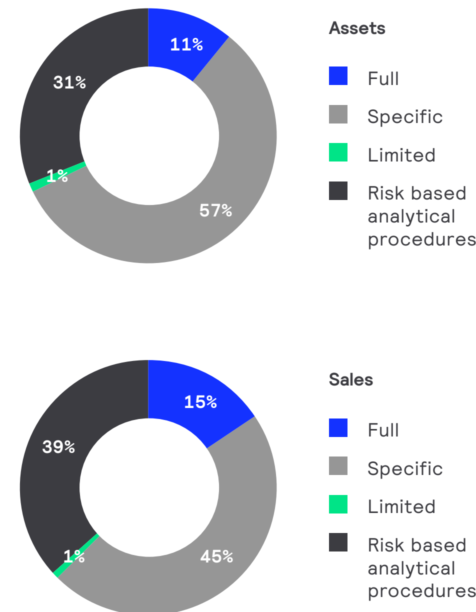
Signify N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Signify N.V.

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) and 20 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 performed audit procedures on accounting areas which are managed centrally such as goodwill, legal claims and treasury.

Where this did not give adequate quantitative coverage of significant account balances, we used our judgment to perform additional procedures on account balances or requested the component auditors to perform additional limited procedures (Limited Procedures). As a result of our scoping of the complete financial information, specific account balances, and the performance of audit procedures at different levels in the organization, our actual coverage varies per account balance. In addition, the depth 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 audit coverage of the group's sales and total assets can be summarized as follows:



By performing the procedures mentioned above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion on the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit procedures for the financial statements and the sustainability information. We have communicated the key audit matters to the supervisory board. The key audit and review matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit procedures for the financial statements and the sustainability information as a whole and to conclude thereon, and we do not provide a separate conclusion on these matters.

The key audit matter "organizational change" which was included in our 2017 audit, is not considered a key audit matter for the 2018 audit as the consequences of the disentanglement from Royal Philips and the impact of the transition of the organization from conventional lighting to LED had less impact than in previous years. The key audit matter "operations in KSA" which was included in our 2017 audit, is not considered a key audit matter in the 2018 audit as the specific measures taken by group management have resulted in improvements in internal controls.

For the audit of the financial statements we identified the following key audit matters.

Key audit matter	How our audit addressed the matter	Key observations
Improper revenue recognition and risk of management override		
Revenue from the sale of goods is recognized at the point in time that the customer obtains control of the goods. For standard sale of products, control generally passes to the customer at the time the product is delivered and accepted, depending on the delivery conditions. Management focuses on sales as a key performance measure which could create an incentive for sales to be recognized before the customer obtains control of the goods due to the pressure management may feel to achieve planned results. Further reference is made to note 2 to the Consolidated financial statements. We assessed that improper revenue recognition, specifically related to cut-off, represents a key audit matter.	Our audit procedures included the assessment of the appropriateness of the Company's revenue recognition accounting policies and the compliance with IFRS as endorsed by the EU. We assessed whether there is a risk that sales may be overstated as a result of management override. We assessed sales transactions taking place before and after year-end to ensure that this revenue exists and that it is recognized in the correct period. We performed analytical procedures to detect sales anomalies. We also assessed the adequacy of the sales disclosures included in note 3, and note 5.	Based on the procedures performed, we did not identify any evidence of material misstatement in the revenue recognized relating to the sales in 2018.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of goodwill		
At December 31, 2018, the total carrying value of goodwill amounts to € 1,771 million, representing 29% of total assets. Goodwill is allocated to Cash Generating Units (CGUs). Goodwill is not amortized but tested for impairment annually and whenever impairment indicators require impairment testing. Signify performed and completed annual impairment tests in the last quarter of the financial year. Judgment is required when analyzing impairments triggers and tests. These analyses are based on estimates of future cash flows. An impairment loss is recognized in the Consolidated statements of income whenever and to the extent that the carrying amount of a cash-generating unit exceeds the recoverable amount. As the determination of the value in use of goodwill is based on significant judgment and a complex valuation method, including the determination of the CGUs used to assess goodwill for impairment, the allocation of goodwill to CGUs, and the assumptions used in the impairment test to support the recoverable amount of goodwill (as disclosed in note 15), we consider this a key audit matter.	As part of our audit, we assessed and tested the assumptions, methodologies, and data used by the Company in their impairment test, by comparing them to external data such as expected inflation rates, discount rates and implied growth. Additionally, we validated that the cash flow projections used in the valuation are consistent with the approved strategic plans and have evaluated the historical accuracy of management's estimates that drive the assessment, such as expected growth rates. We performed sensitivity analyses by stress testing key assumptions in the model to determine the degree to which these assumptions would need to change before an impairment charge is triggered. We included in our team a valuation expert to assist us in these audit activities. We specifically focused on the sensitivity of the headroom in the CGU Professional and whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We assessed the adequacy of the Company's disclosure around goodwill as included in note 15 to the Consolidated financial statements as well as the Company's policies that are more critical in nature as included in note 2 to the Consolidated financial statements.	We consider management's assumptions to be within a reasonable range. We concur with management's conclusion that no impairment of goodwill is required as at December 31, 2018.

Key audit matter	How our audit addressed the matter	Key observations
Valuation of deferred tax assets and liabilities for uncertain tax positions		
At December 31, 2018, the net deferred tax assets amounts to € 399 million and the other tax liability related to tax uncertainties amounts to € 102 million. Further reference is made to note 12 of the Consolidated financial statements. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The evaluation of the recoverability of deferred tax assets requires judgment about the future taxable profitability of the legal entity holding the tax loss carry forward. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the countries where the deferred tax assets originated and during the periods when the deferred tax assets become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. A lack of future taxable profits or taxable profits below the level of current estimates, may cause deferred tax assets to be impaired. Other tax liabilities include liabilities for uncertain tax positions which are recognized when it is probable that additional tax will be due. Actual tax assessments in relation to these other tax liabilities may significantly deviate from estimates. The accounting for deferred tax assets and tax risk liabilities was significant to our audit since the Company has extensive international operations, makes judgments and estimates in relation to the realization of deferred tax assets, and has tax risks resulting in the recognition of other tax liabilities.	With the involvement of our tax experts we evaluated the tax accounting in various jurisdictions in which the Company operates, taking into account the impact of the local tax jurisdiction and including effects resulting from the separation of Koninklijke Philips N.V. With regard to deferred tax assets, we tested management's assumptions used to determine the probability that deferred tax assets recognized in the balance sheet will be recovered. This is based upon forecasted taxable income in the countries where the deferred tax assets originated and the periods when the deferred tax assets can be utilized. These forecasts were evaluated by us and we assessed the historical accuracy of management's assumptions. We evaluated and challenged the Company's judgments in respect to estimates of tax exposures in consideration of ongoing local tax authority audits, 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 12 in respect to deferred tax assets and other tax liabilities related to tax uncertainties.	The gradual reduction of the income tax rate in the Netherlands to 20.5% in 2021 resulted in a decrease of the deferred tax assets relating to temporary differences on intangible assets of € 17 million, which was recognized in income. We did not identify any evidence of material misstatement of deferred tax assets and uncertain tax positions as recorded in the year-end balance sheet.

For the audit of the sustainability information, we identified the following key audit matters:

Key audit matter	How our procedures addressed the matter	Key observations
Reporting criteria for sustainable revenues		
Sustainable revenues (as disclosed in chapter 16.3.1), is an important key performance indicator (KPI) in the sustainability strategy. This KPI is based on reference products which are continuously improving in time.	Our procedures focused on evaluating whether the self-developed reporting criteria for this indicator are suitable and consistently applied, and assessing whether the disclosure of the reporting criteria in the annual report is sufficient for a proper understanding by the reader. Further reference is made to the Sustainability supplement as referred to in chapter 16.1.5.	We concur with the criteria, its application by management and the disclosures made by management.
Estimates and assumptions concerning the calculated impact of avoided CO_2 as presented in the value creation model.		
Inherent to the nature of calculating avoided CO_2 and expressing this in monetary terms is that this is to a large extent based on the use of estimates and underlying assumptions which require additional attention in our procedures. Further reference is made to the Value creation model as disclosed in chapter 3.3.	Our procedures focused on evaluating whether the methodology is suitable, consistently applied and assessing the reasonableness of estimates and assumptions. Furthermore we evaluated whether the related disclosures in the annual report and in the document “methodology for calculating our societal impact” document are adequate.	We concur with the methodologies applied, the estimates and assumptions made by management and the sufficiency of the related disclosures in the annual report and methodology document.

Other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management board's report
- Other information required by Part 9 of Book 2 of the Dutch Civil Code
- Sustainability statements
- Corporate Governance report

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.
By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements or in our review of the sustainability information.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were initially engaged as the auditor of Koninklijke Philips N.V. by the general meeting of shareholders in May 2015 as of the audit for the year 2016. We were engaged by the Supervisory Board as the auditor of Philips Lighting N.V. (Signify N.V.) on July 15, 2016 for the audit of 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

Our services are only related to the audit of the financial statements.

Responsibilities

Responsibilities of management and the supervisory board

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code.

Management is also responsible for the preparation of the sustainability information in accordance with the Sustainability Reporting Standards of the GRI and the applied supplemental reporting criteria as disclosed on page 134 of the annual report, including the identification of the stakeholders and the determination of material issues. The choices made by management with respect to the scope of the sustainability information are included in section 16.1 Approach to sustainability reporting of the annual report.

Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements and the sustainability information that are free from material misstatement, whether due to fraud or errors.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the (financial) reporting process of Signify N.V.

Our responsibilities

Our responsibility is to plan and perform the audit engagements in a manner that allows us to obtain sufficient and appropriate audit evidence for our conclusions.

Our audit of the financial statements and the sustainability information have been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements and the sustainability information. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinions.

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS, Regulations for Quality management systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

A further description of our responsibilities is included in the Annex to the combined independent auditor's report.

Amsterdam, the Netherlands
February 26, 2019

Ernst & Young Accountants LLP

O.E.D. Jonker

Annex to the combined independent auditor's report

Work performed

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagements, in accordance with the Dutch Standards on Auditing and the Dutch assurance standards, ethical requirements and independence requirements.

Our audit to obtain reasonable assurance about the financial statements (consolidated and corporate) included amongst others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or errors, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Our audit to obtain reasonable assurance about the sustainability information included amongst others:

- Performing an analysis of the external environment and obtaining an understanding of relevant social themes and issues and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates by management.
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our audit.
- Obtaining an understanding of the systems and processes for collecting, reporting and consolidating the sustainability information, including obtaining an understanding of internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Identifying and assessing the risks that the sustainability information is misleading or unbalanced, or contains material misstatements, whether due to fraud or errors. Designing and performing further audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk that the sustainability information is misleading or unbalanced, or the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors. Fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. These further audit procedures consisted amongst others of:
  - Interviewing management and relevant staff at corporate and business level responsible for the sustainability strategy, policy and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information
  - Visits to production sites in Spain, China and Saudi Arabia aimed at, on a local level, validating source data and to evaluate the design, implementation and operation of control validation procedures.
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company
  - Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the sustainability information
  - Performing an analytical review of the data and trends
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report which is not included in the scope of our audit.

- Evaluating the overall presentation, structure and content of the sustainability information.
- Considering whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

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.

We communicate with the supervisory board regarding, among other matters,
the planned scope and timing of the assurance procedures and significant findings, including any significant findings in internal control that we identify during our assurance engagements. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements and the sustainability information. We describe these matters in our combined 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 operates, as a means of evaluating a company's operating performance and liquidity.

Comparable sales growth

The company discloses comparable sales growth as a supplemental non-IFRS financial measure, as the company believes that the presentation of comparable sales growth is a meaningful measure for investors to evaluate the performance of the company's business activities over time. The company determines comparable sales growth by deducting the percentage figures for changes from the nominal change of sales. Interaction effects between currency movements, changes in consolidation, regulatory changes and changes in accounting standards (second order effects) are not taken into account. The company presents comparable sales growth on both a Business Group and Market Group basis. Comparable sales growth is also used by the company as a key financial measure to assess the operating performance of the Business Groups and Market Groups.

Sales growth composition per business in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Lamps	(16.2)	(3.8)	(0.2)	(20.1)
LED	0.4	(4.9)	(0.3)	(4.7)
Professional	(0.4)	(3.9)	0.1	(4.2)
Home	(3.8)	(1.9)	(2.4)	(8.0)
Other	(6.1)	(3.0)	-	(9.1)
Total	**(4.4)**	**(4.0)**	**(0.3)**	**(8.7)**

Sales growth composition per market in %

	Comparable growth	Currency effects	Consolidation and other changes	Nominal growth
Europe	(1.9)	(0.7)	-	(2.6)
Americas	(9.6)	(6.2)	(0.4)	(16.2)
Rest of the World	(2.2)	(6.0)	0.1	(8.1)
Global businesses	(3.6)	(1.4)	(2.6)	(7.6)
Total	**(4.4)**	**(4.0)**	**(0.3)**	**(8.7)**

EBITA and Adjusted EBITA

The company discloses EBITA, Adjusted EBITA and Adjusted EBITA ratio as supplemental non-IFRS financial measures, as the company believes these are meaningful measures to evaluate the performance of the company's business activities over time. The company understands that these measures are used by analysts, rating agencies and investors in assessing the company's performance. The company presents EBITA, Adjusted EBITA and Adjusted EBITA ratio on a Business Group basis. The company also believes that the presentation of EBITA, Adjusted EBITA and Adjusted EBITA ratio provide useful information to investors on the development of the company's business and, in the case of EBITA, Adjusted EBITA and Adjusted EBITA ratio, enhances the ability of investors to compare profitability across the Business Groups. In the case of EBITA, the company believes that it makes the underlying performance of its businesses more transparent by factoring out the amortization and impairment of acquisition related intangible assets and goodwill, which arises when acquisitions are consolidated by the company. In the case of Adjusted EBITA and Adjusted EBITA ratio, the company believes that these measures make the underlying performance of its businesses more transparent by factoring out restructuring costs, acquisition related charges and incidental charges which are not directly related to the operational performance of a Business Group. EBITA, Adjusted EBITA and Adjusted EBITA ratio are also used by the company as key financial measures to assess the operating performance of the Business Groups.

Adjusted EBITA to Income from operations (or EBIT) in mEUR

	Signify	Lamps	LED	Profes-sional	Home	Other
2018						
Adjusted EBITA	640	302	212	251	(38)	(87)
Restructuring	(118)	(32)	(8)	(34)	(5)	(39)
Acquisition-related charges	(1)	(0)	-	(1)	-	(0)
Incidental items	(17)	(0)	(0)	(8)	(0)	(9)
EBITA	**504**	**270**	**204**	**208**	**(43)**	**(135)**
Amortization [1]	(94)	(1)	(4)	(86)	(1)	(2)
Income from operations (or EBIT)	**410**	**269**	**200**	**121**	**(44)**	**(137)**
2017						
Adjusted EBITA [2] [3]	669	345	188	229	12	(106)
Restructuring	(125)	(41)	(5)	(45)	(4)	(29)
Acquisition-related charges	(0)	-	-	(0)	-	-
Incidental items [3]	27	31	3	2	15	(24)
EBITA [2]	**571**	**335**	**187**	**186**	**22**	**(159)**
Amortization [1]	(130)	(1)	(4)	(119)	(5)	(2)
Income from operations (or EBIT) [2]	**441**	**334**	**183**	**67**	**18**	**(161)**

1) Amortization and impairments of acquisition related intangible assets and goodwill.
2) Restated after changes in business portfolio and allocation methods.
3) Restated after lowering the threshold for other incidental items.

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 without the effects of variations in sales. The measure factors out restructuring costs, acquisition related charges and incidental charges attributable to cost of sales which are not directly related to the operational performance of the company. Adjusted gross margin is also used by the company as a key financial measure to assess the operating performance of the company.

Adjusted indirect costs: adjusted SG&A costs and adjusted R&D costs

The company discloses adjusted gross SG&A costs and adjusted R&D costs as a supplemental non-IFRS financial measure. The company believes it is a meaningful measure to evaluate the company's SG&A costs and R&D costs on a comparable basis over time. The measure factors out restructuring costs, acquisition related charges and 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 mEUR

	Reported	Restruc-turing	Acquisition related charges	Incidental items	Adjusted
2018					
Sales	6,358	-	-	-	6,358
Cost of sales	(3,976)	50	0	0	(3,926)
Gross margin	2,382	50	0	0	2,433
Selling, general and administrative expenses	(1,675)	43	1	23	(1,609)
Research and development expenses	(312)	25	-	-	(288)
Indirect costs	**(1,988)**	**68**	**1**	**23**	**(1,896)**
Impairment of goodwill	-	-	-	-	-
Other business income	32	-	-	(17)	14
Other business expenses	(17)	-	-	11	(5)
Income from operations	**410**	**118**	**1**	**17**	**545**
Amortization [1]	(94)	-	-	-	(94)
Income from operations excluding amortization (EBITA)	**504**	**118**	**1**	**17**	**640**
2017					
Sales	6,965	-	-	-	6,965
Cost of sales [2]	(4,262)	51	-	1	(4,210)
Gross margin [2]	**2,704**	**51**	**-**	**1**	**2,755**
Selling, general and administrative expenses [2]	(1,954)	58	0	44	(1,852)
Research and development expenses [2]	(362)	20	-	-	(342)
Indirect costs [2]	**(2,316)**	**78**	**0**	**44**	**(2,194)**
Impairment of goodwill	(1)	-	-	-	(1)
Other business income [3]	72	-	-	(57)	15
Other business expenses	(18)	-	-	6	(13)
Income from operations	**441**	**128**	**0**	**(7)**	**562**
Amortization [1]	(130)	4	-	20	(107)
Income from operations excluding amortization (EBITA)	**571**	**125**	**0**	**(27)**	**669**

[1] Amortization and impairment of acquisition related intangible assets and goodwill.
[2] Restated after changes in business portfolio and allocation methods.
[3] Restated after lowering the threshold for other incidental items.

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 net cash provided by / (used in) operating activities and net cash provided by / (used in) 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 mEUR

	2017	2018
Cash flows from operating activities	435	381
Cash flows from investing activities	(26)	(90)
Cash flows before financing activities	**409**	**291**
Cash flows from operating activities	435	381
Net capital expenditures:		
• Additions of intangible assets	(20)	(26)
• Capital expenditures on property, plant and equipment	(76)	(57)
• Proceeds from disposal of property, plant and equipment	64	8
Free cash flows	**403**	**306**

Free cash flow in mEUR

	2017	2018
LED, Professional and Home [1]	353	370
Lamps [1]	438	308
Other	(388)	(372)
Signify total	**403**	**306**

[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 mEUR unless otherwise stated

	2017	2018
Short-term debt	140	78
Long-term debt	1,170	1,187
Gross debt	**1,309**	**1,265**
Cash and cash equivalents	942	676
Net debt	**367**	**589**
Shareholders' equity	2,242	2,041
Non-controlling interests	79	78
Total equity	**2,321**	**2,119**
Net debt and total equity	2,688	2,709
Net debt divided by net debt and total equity (in %)	14%	22%
Total equity divided by net debt and total equity (in %)	86%	78%

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 mEUR

	2017 [1]	2018
Working capital	**597**	**536**
Eliminate liabilities comprised in WoCa:		
• Accounts and notes payable	1,001	953
• Accrued liabilities	475	444
• Derivative financial liabilities	8	22
• Other current liabilities	309	288
Include assets not comprised in WoCa:		
• Non-current assets	3,306	3,211
• Income tax receivable	39	35
• Current financial assets	0	4
• Cash and cash equivalents	942	676
• Assets classified as held for sale	1	9
Total assets	**6,678**	**6,181**

[1] Restated to exclude income tax payable and receivable.

19 Definitions and abbreviations

Acquisition related charges
Costs that are directly triggered by the acquisition of a company, such as transaction costs, purchase accounting related costs and integration-related expenses.

Adjusted EBITA
EBITA excluding restructuring costs, acquisition related charges and other incidental charges.

Adjusted EBITA margin
Adjusted EBITA divided by sales to third parties (excluding intersegment).

Adjusted gross margin
Gross margin, excluding restructuring costs, acquisition related charges and other incidental items attributable to cost of sales.

Adjusted indirect costs
Indirect costs, excluding restructuring costs, acquisition related charges and other incidental items attributable to indirect costs.

Adjusted research and development (R&D) expenses
Research and development expenses, excluding restructuring costs, acquisition related charges and other incidental items attributable to research and development expenses.

Adjusted selling, general and administrative (SG&A) expenses
Selling, general and administrative expenses, excluding restructuring costs, acquisition related charges and other incidental items attributable to selling, general and administrative expenses.

Ballasts
Lamp control gear inserted between the supply and one or more discharge lamps, which, by means of inductance, capacitance or a combination of inductance and capacitance, serves mainly to limit the current of the lamp(s) to the required value.

Carbon footprint
Carbon footprint is expressed in CO_2-equivalent or carbon dioxide equivalent, which is a quantity that describes, for a given mixture and amount of greenhouse gas, the amount of CO_2 that would have the same global warming potential (GWP), when measured over a specific timescale (generally 100 years).

Circular economy
A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using those resources more effectively. By definition it is a driver for innovation in the areas of material-, component- and product reuse, as well as new business models such as solutions and services. In a circular economy, the more effective use of materials creates more value, both by cost savings and by developing new markets or growing existing ones.

Compact fluorescent light (CFL)
CFLs usually combine a fluorescent light with an incandescent fixture.

CFLni
Non-integrated CFLs.

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

Continuing net income
Recurring net income from continuing operations, or net income excluding discontinued operations and excluding material nonrecurring items.

Conventional lamps
Non-LED based light emitting light sources, including incandescent lamps, halogen lamps, fluorescent lamps and high intensity discharge lamps.

Conventional luminaires
Light fixtures with a conventional socket (e.g., a screw socket for a conventional lamp or LED lamp).

EBIT
Income from operations.

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

EBITDA
Income from operations excluding depreciation, amortization and impairment of non-financial assets.

Effects of changes in consolidation and other changes
In the event a business is acquired (or divested), the impact of the consolidation (or de-consolidation) on the company's figures are included (or excluded) in the comparable figures. Other changes include regulatory changes and changes originating from new accounting standards.

Effects of currency movements
Calculated by translating the foreign currency financials of the previous period and the current period into euros at the same average exchange rates.

Electronics
Units that regulate the current going through a light source.

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

Employee Net Promoter Score (NPS)
The Net Promoter Score methodology is used to measure employee engagement. Employees are asked to rank how likely it is that they would recommend our company as a great place to work. The scoring for this answer is based on a 0 to 10 scale. Those who respond with a score of 9 to 10 are called Promoters. Those who respond with a score of 0 to 6 are labeled Detractors. Responses of 7 and 8 are labeled Passives. The NPS is calculated by subtracting the percentage of employees who are Detractors from the percentage of employees who are Promoters.

Fluorescent lamp
A lamp which produces light with an electric current conducted through an inert gas producing ultraviolet light that is invisible to the human eye.

Free cash flow
Net cash provided by operating activities minus net capital expenditures. For LED, Professional, Home and Lamps, free cash flow excludes items not allocated to the operating segments, such as interest paid (or received) and income taxes paid.

Global Reporting Initiative (GRI)
The Global Reporting Initiative is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

Gross debt
The sum of short-term debt and long-term debt.

Gross margin
Sales minus cost of sales.

Halogen lamp
A type of incandescent lamp with a capsule that holds a special halogen gas composition around the heated filament to increase the efficacy of the incandescence.

High intensity discharge lamp (HID)
A type of conventional lamp that uses electricity arcs between two electrodes to create an intensely bright light where mercury, sodium, or metal halide gas act as the conductor.

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

Incandescent lamp
A conventional lamp that produces visible light by heating a tungsten filament inside a glass bulb usually filled with an inert gas.

Indirect costs
The sum of Selling, general and administrative and Research and development expenses.

International Standardization Organization (ISO)
The International Standardization Organization is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of more than 160 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system. ISO is a non-governmental organization that forms a bridge between the public and private sectors.

LED
Light-emitting diode.

LED-based sales
Sales provided by products, systems and services based on LED lighting technologies.

LED drivers
Lighting electronics that convert input power into a current which remains constant despite fluctuations in voltage.

LED lamp
A solid-state semiconductor device that converts electrical energy directly into light.

LED luminaires
Light fixtures where LED modules are integrated into the luminaire as light source and cannot be separated from the luminaire by the user.

LED modules
Light generating units around which luminaires are built for the purpose of emitting distributed patterns of light.

Light-as-a-service contract
Contracts enabling an integrated solution for customers where customers pay for the provision of light to their premises, while the company plans and builds the lighting infrastructure and ensures its performance until the end of the contract.

Lighting services
Services offered to customers building on a lighting system and enabled by data.

Lighting systems
The combination of luminaires, controls and software. The automation and related controls of lighting within a room, building or outdoor facilities for end-users.

Luminaire
Electrical devices that produce, control and distribute light. Also called light fixtures. They consist of one or more light sources, lamps or sockets that connect the lamps to the electrical power (as well as drivers in some luminaires), and the mechanical components required to support or attach the housing.

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

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

Net leverage ratio
The ratio of consolidated total net debt to consolidated adjusted EBITDA for the purpose of calculating the facility covenant for the term loan and revolving credit facility.

Non-governmental organization (NGO)
A non-governmental organization is any non-profit, voluntary citizens' group which is organized at a local, national or international level.

OEM
Original equipment manufacturer.

Productivity
Signify uses Productivity internally and as mentioned in this Annual Report as a non-financial indicator of efficiency that relates the added value, being income from operations adjusted for certain items such as restructuring and acquisition related charges plus salaries and wages (including pension costs and other social security and similar charges), depreciation of property, plant and equipment, and amortization of intangibles, to the average number of employees over the past 12 months.

R&D expenses
Research and development expenses.

Renewable electricity
Percentage of total electricity usage from renewable sources.

Responsible Business Alliance (RBA)
The Responsible Business Alliance (RBA, formerly known as Electronic Industry Citizenship Coalition) was established in 2004 to promote a common code of conduct for the electronics and information and communications technology (ICT) industry. The RBA now includes more than 100 global companies and their suppliers.

Restructuring costs
The estimated costs of initiated reorganizations, the most significant of which have been approved by the company, and which generally involve the realignment of certain parts of the organization.

Royal Philips
Koninklijke Philips N.V. ('KPNV') and its subsidiaries within the meaning of Section 2:24b of the Dutch Civil Code.

SG&A expenses
Selling, general and administrative expenses.

Signify
Signify N.V. (the "Company", formerly known as Philips Lighting N.V) and its subsidiaries, within the meaning of Section 2:24b of the Dutch Civil Code.

Supplier sustainability performance
The supplier sustainability performance rate represents the percentage of risk suppliers with an audit score of at least 90 out of 100 points.

Sustainable innovation
Sustainable innovation comprises all research & development activities contributing to lighting technologies considered for sustainable products, systems or services. This means all products, systems, or services that demonstrate a measurable positive impact in energy efficiency (10% or greater), and preferably in one or more sustainable focal areas: Circularity, Weight & Materials, Packaging, Substances, Human Centric Lighting, Basic Needs or Access to Light. Sustainable innovation spend is the cumulative spending of all R&D projects contributing to sustainable innovation.

Sustainable revenues

Sustainable revenues are measured as a percentage of total revenues per product category and tracked for each business group. Sustainable products, systems or services must demonstrate a measurable positive impact in energy efficiency (10% or greater), the most impactful of our sustainable focal areas. Sustainable revenues are defined as products with an energy efficiency of 66 lm/W and higher as well as all systems and services, as these provide additional energy savings.
Sustainable products outperform reference products (predecessor product in the particular product family), or product-specific eco-requirements, or by being awarded with a recognized eco-performance label. The lifecycle approach is used to determine the environmental impacts and improvements of our products over their total life cycle (from raw materials, manufacturing, packaging, transportation, product use to disposal). Studies have shown the product use phase being the most important for lighting products.

Switch

Wall mounted devices designed to (i) change the electric connections among its terminals or (ii) engage with the pins of a plug and having terminals for the connection of cables or cords (i.e., socket contacts).

Total Recordable Case rate

Number of injuries and illnesses sustained at work that result in medical treatment, restricted work, lost work-days, or fatality, divided by 100 FTE.

Weighted average statutory income tax rate

The reconciliation of the effective tax rate is based on the applicable statutory tax rate, which is a weighted average of all applicable jurisdictions. This weighted average statutory tax rate is the aggregation of the result before tax multiplied by the applicable statutory tax rate without adjustment for losses, divided by the company result before tax.

Working capital

The sum of Inventories, Receivables, Other current assets, Derivative financial assets minus the sum of Accounts and notes payable, Accrued liabilities, Derivative financial liabilities and Other current liabilities.

Zero waste to landfill

Zero waste to landfill refers to manufacturing sites diverting their manufacturing waste to recycling or incineration, opposed to landfill.
To determine waste to landfill in scope of our commitment we exclude the following categories: chemical waste, hazardous waste, one-time waste and regulated waste. When more than 99% of the total operational waste generated of a site is diverted from landfill, a site is considered to qualify as sending ‘zero waste to landfill’.

20 Forward-looking statements and other information

Forward-looking statements and risks & uncertainties

This document contains forward-looking statements that reflect the intentions, beliefs or current expectations and projections of Signify N.V. together with its subsidiaries, including statements regarding strategy, estimates of sales growth and future operational results.

By their nature, these statements involve risks and uncertainties facing Signify and a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement as a result of risks and uncertainties. Such risks, uncertainties and other important factors include but are not limited to: adverse economic and political developments, the impacts of rapid technological change, competition in the general lighting market, development of lighting systems and services, successful implementation of business transformation programs, pension liabilities and costs, establishment of brand identity, 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 IFRS, as explained in the significant accounting policies, unless otherwise indicated.

Statutory financial statements

Chapter 14, Consolidated financial statements and chapter 15, Signify N.V. financial statements, of this Annual Report, contain the statutory financial statements of Signify N.V.

Regulated information

This document contains regulated information within the meaning of the Dutch Financial Markets Supervision Act.

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