Signify Denmark A/S

Frederikskaj 6
DK-2450 København SV

CVR no. 36 96 72 26

Annual report 2019

The annual report was presented and approved at the Company's annual general meeting on

15 September 2020

Åsa Ellinor Maria Wilhelmsson
chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Signify Denmark A/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 15 September 2020
Executive Board:

Kenneth Karl-Johan Grönholm
CEO

Board of Directors:

Åsa Ellinor Maria Wilhelmsson Chairman	Henrik Nørgaard	Michael Fallenkamp Kragh

Independent auditor's report

To the shareholders of Signify Denmark A/S

Opinion

We have audited the financial statements of Signify Denmark A/S for the financial year 1 January – 31 December 2019 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

Independent auditor's report

— identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

— obtain 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.

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

— conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements 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.

— evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 15 September 2020
EY
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Lissen Fagerlin Hammer State Authorised Public Accountant mne27747	Karsten Faurholt State Authorised Public Accountant mne41309

Management's review

Company details

Signify Denmark A/S
Frederikskaj 6
DK-2450 København SV

CVR no.:	36 96 72 26
Established:	7 July 2015
Registered office:	Copenhagen
Financial year:	1 January – 31 December

Board of Directors

Åsa Ellinor Maria Wilhelmsson, Chairman
Henrik Nørgaard
Michael Fallenkamp Kragh

Executive Board

Kenneth Karl-Johan Grönholm, CEO

Auditor

EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36, Postbox 250
DK-2000 Frederiksberg

Management's review

Financial highlights

DKK'000	2019	2018	2017	7 Jul 2015 - 31 Dec 2016
Key figures				
Revenue	501,043	524,719	518,811	513,230
Operating profit/loss	939	4,413	11,096	760
Profit/loss from financial income and expenses	-709	-932	-1,058	-1,857
Profit/loss for the year	2,462	2,608	7,854	-987
Total assets	146,243	131,519	152,796	152,657
Equity	24,290	21,918	19,310	11,455
Investment in property, plant and equipment, excluding RoU-assets	1,160	1,285	2,444	18,475
Ratios				
Gross margin	20.17%	21.78%	22.62%	20.40%
Operating margin	0.19%	0.84%	2.14%	0.15%
Current ratio	105.84%	114.73%	104.47%	96.68%
Return on equity	13.82%	12.65%	51.06%	-17.20%
Solvency ratio	16.61%	16.67%	12.64%	7.50%
Average number of full-time employees	135	137	132	135

Financial ratios are calculated in accordance with the guidelines "Recomendations and Ratios" issued by the Danish Society of Financial Analysts. The financial ratios have been calculated as follows:

Due to the implementation of IFRS 15 and IFRS 16 in 2019 with no re-statement of previous years figures, the key figures and financial ratios from previous years are not comparable.

Gross margin $\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$

Operating margin $\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$

Current ratio $\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$

Return on equity $\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$

Solvency ratio $\frac{\text{Equity ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$

Management's review

Operating review

Principal activities

Signify Denmark A/S is a fully owned subsidiary of its Dutch parent company, Signify Holding B.V. The Signify Group's line of business is lighting, providing customers with high-quality, energy efficient lighting products, systems and services.

Currently, Signify's business is organised 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 Signify Group's commercial organisation is structured along four geographical Market Groups to manage its global sales channels. The Market Groups are principally responsible for driving and managing sales and customer relationships and delivering the commercial activities of the business across the markets, covering commercial activities.

Development in activities and financial position

2019 financial sales performance represented DKK 501,043 thousand, reflecting a nominal sales decrease of 4.5%.

The performance in 2019 reflected an overall challenge in the market in the first half of the year. This mainly impacted the Professional luminaires and LED Electronics business and was partly offset by a strong performance in Home. The performance of Lamps showed the successful execution of the 'last company standing' strategy to extract value from the conventional business.

Results for the year was a profit of DKK 2,462 thousand after tax as against a profit of DKK 2,608 thousand last year. Equity stood at DKK 24,290 thousand.

Profit/loss for the year and the balance sheet total are affected by the fact that the Company has changed its interpretation of leases to which the Company is the lessee from IAS 17 to IFRS 16.

In the income statement, Gross profit and Operating profit for 2019 are affected, whereas profit/loss for the year remains substantially unchanged. This is due to the depreciation of the right-of-use assets and interest expenses from the lease liability being substantially equal to operating lease costs previously recognised in the income statement.

Gross profit was affected by DKK 1,175 thousand and Operating profit by DKK 53 thousand. In 2019, the Company's liabilities were affected by DKK 12,607 thousand.

IFRS 16 has been adopted applying the modified retrospective approach, hence no restatement of previously reported figures have been done. Please refer to note 1 - Accounting principles and note 8 - property, plant and equipment.

In October 2019, Henrik Norgaard was appointed Member of the Board of Directors and Kenneth Karl-Johan Grönholm was appointed as the new CEO.

Events after the balance sheet date

After the end of the financial year, Coronavirus - COVID 19 has hit the world with full force.

The Company has been affected and will be affected by this pandemic in various parts of the business, which means that there is a risk of negative financial impact.

The development is being followed closely, and a number of measures have been taken to try to reduce the impact on the business. The company has a financial position that can withstand a significant decline in business activity. Therefore, COVID-19 is not assessed to impact the Company's financial position.

Management's review

Operating review

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

Business and financial risk

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.

In addition, 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.

Outlook

There is a transition in both professional and consumer segments from LED lamps to functional LED luminaires and connected solutions, as anticipated in the company’s strategy. This trend is driven by an increasingly compelling proposition of both integrated LED luminaires and connected solutions in particular, whilst at the same time the replacement cycle of LED Lamps reduces due to its longer lifetime. The company expects this trend to continue for the foreseeable future. This provides a solid growth path with the ambition to drive market share gains and leadership in functional luminaires as connected lighting.

Signify continues to expect that the LED lamps market will peak in 2020 in terms of volumes. The LED electronics market is expected to grow, particularly driven by the shift to connected lighting. LED will drive growth in LED electronics through the transition to smart lighting via innovation leadership in connected components and by expanding the market position in indoor LED electronics.

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

The professional lighting market is a large, growing and resilient market. As the global leader in this market, the Signify Group is well positioned to benefit from powerful global trends such as the shift to connected lighting. The Signify Group’s Interact platform is designed to handle data collected from the growing number of connected light points, sensor devices and systems. The transition to connected lighting is occurring rapidly, particularly in developed countries. Professional systems typically control a large network of lights. Potential savings for customers based on total cost of ownership tend to be significant. The connected lighting market continues to offer significant growth potential for Signify.

As mentioned in the section "Events after the balance sheet date", revenue and results for 2020 is expected to be negatively affected by the impacts of COVID-19.

Intellectual capital

The Company does not hold any specific intellectual capital resources other than those normally held by a sales company.

Management's review

Operating review

Environmental matters

The Company operates in accordance with the sustainable development principles of the Signify Group.

Research and development activities

The Company has no research and development activities.

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

As part of Signify's commitment to sustainable innovation, the group launched a 3D printing service that enables customers to custom-design or tailor their luminaires. Signify then 3D print and deliver their luminaires, saving on time, energy, waste and packaging. All these luminaires are recyclable, as part of Signify's move to a circular economy. Additionally, Signify is expanding growth areas like aquacultural, horticultural and solar lighting with best-in-class products and systems.

Market overview and strategy

Signify Group is the world market leader with recognized expertise in the development, manufacture and sale of innovative, energy efficient lighting systems and services. Signify has pioneered many key breakthroughs in lighting over the past 128 years and have been a driving force behind several leading technological innovations, and is in a leading position as the lighting industry transitions from conventional to LED lighting technologies, and now moves toward connected lighting. The Group's track record in innovation is strong and the Group invests heavily in R&D to stay at the forefront of technological developments. Signify's size and position across the value chain provide significant economies of scale, allowing us to leverage the development of innovative technologies, products and services.

The Company's strategy is based on seven key strategic priorities:

1. Create segmented and differentiated LED offers to increase share
2. Drive systems growth to increase connected installed base
3. Develop data-enabled services revenues
4. Invest in growth, organically and inorganically
5. Grow a leading market share in conventional
6. Digitalize and improve commercial and supply chain processes for customers
7. Achieve world class operational excellence.

The lighting company for the Internet of Things

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

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

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2019	2018
Revenue		501,043	524,719
Cost of goods sold		-355,168	-361,248
Other operating income		46	0
Other external costs		-44,842	-49,166
Gross profit		101,079	114,305
Staff costs	2	-90,154	-96,447
Depreciation, amortisation and impairment losses	3	-9,986	-9,668
Other operating costs		0	-3,777
Operating profit		939	4,413
Financial expenses	4	-709	-932
Profit before tax		230	3,481
Tax on profit for the year	5	2,232	-873
Profit for the year	6	2,462	2,608

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2019	31/12 2018
ASSETS			
Fixed assets			
Intangible assets	7		
Acquired customer rights		4,052	7,791
Property, plant and equipment	8		
Property, plant and equipment under construction		270	393
Fixtures and fittings, tools and equipment		2,156	3,727
Leasehold improvements		753	3,297
Right-of-use assets		13,967	0
		17,146	7,417
Investments	9		
Deposits		999	2,400
Total fixed assets		22,197	17,608
Current assets			
Inventories			
Raw materials and consumables		8,555	7,209
Work in progress		325	712
Finished goods and goods for resale		146	249
		9,026	8,170
Receivables			
Trade receivables		111,108	97,471
Other receivables		41	27
Deferred tax asset	10	2,830	4,064
Corporation tax		92	0
Prepayments	11	949	4,179
		115,020	105,741
Total current assets		124,046	113,911
TOTAL ASSETS		146,243	131,519

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2019	31/12 2018
EQUITY AND LIABILITIES			
Equity			
Contributed capital	12	3,500	3,500
Retained earnings		20,790	18,418
Total equity		24,290	21,918
Provisions	13		
Other provisions		6,961	10,316
Total provisions		6,961	10,316
Liabilities other than provisions			
Non-current liabilities other than provisions	14		
Lease obligations		9,215	14
Payables to group entities		57,371	42,997
Other payables		2,453	0
		69,039	43,011
Current liabilities other than provisions			
Current portion of lease obligations	14	3,392	176
Banks, current liabilities		0	54
Trade payables		11,628	12,629
Corporation tax		0	5,151
Other payables	14	30,187	37,623
Deferred income		746	641
		45,953	56,274
Total liabilities other than provisions		114,992	99,285
TOTAL EQUITY AND LIABILITIES		146,243	131,519

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	3,500	15,810	19,310
Transferred over the profit appropriation	0	2,608	2,608
Equity at 31 December 2018	3,500	18,418	21,918
Net effect from implementation of IFRS 16	0	-90	-90
Transferred over the profit appropriation	0	2,462	2,462
Equity at 31 December 2019	3,500	20,790	24,290

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Signify Denmark A/S for 2019 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act with opt-in from higher reporting classes.
The accounting policies used in the preparation of the financial statements are consistent with those of last year, with the exception of the implementation of IFRS 15 and IFRS 16 further described below.
The payables to group entities were reclassified comparably to non-current liabilities, for a presentation in accordance with their due date in 2022.
The financial statements for 2019 are presented in DKK'000.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Signify Holding B.V.

Change in accounting policies

With effect from 1 January 2019, the Company has chosen to use IFRS 16 Leases as the basis of interpretation for recognising and measurement of leases to which the Company is the lessee. In addition, the Company adopted IFRS 15 as interpretations for the recognition and measurement of revenue. The implementation of IFRS 15 has not had any monetary impact on the income statement or the balance sheet for 2019 or for the comparison figures.

Consequently, with effect from 1 January 2019, the Company recognises all finance and operating leases in the balance sheet as a right-of-use asset and a lease liability except from:

- Short-term leases with a maximum lease term of 12 months
- Leases for low-value assets

For such leases, lease payments are recognised on a straight-line basis in the income statement over the lease term.

When changing its basis of interpretation, the Company has used the modified retrospective approach under IFRS 16 without restatement of comparative figures. The Company has applied the following practical expedients for right-of-use assets and lease liabilities previously accounted for as operating leases:

- Applied a single discount rate to a portfolio of leased assets with reasonably similar characteristics.
- Not recognised leases for which the lease term ends within 12 months from the date of transition.
- Excluded initial direct costs from the measurement of the right-use-assets at 1 January 2019.
- At 1 January 2019, the right-of-use asset is measured at the asset's carrying amount as if IFRS 16 had been applied since the commencement date of the lease. As a result, a net impact of DKK 90 thousand has been recognised directly in the equity.
- Not applied the new lease definition to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.
- On 1 January 2019, not separated non-lease components from lease components, but considered them a single lease component. Below, the operating lease liability in accordance with IAS 17 disclosed in the financial statements for 2018 has been reconciled with the lease liability recognised in the balance sheet at 1 January 2019 (date of transition):

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

DKK'000	2019
Operating lease liabilities disclosed at 31 December 2018:	
Premises	12,431
Cars	2,973
Effect of exemptions:	
Short-term leases	-8,188
Leases for low-value assets	-2,973
Effect from discounting nominal values to net present value	-228
Lease liabilities recognised at 1 January 2019	4,015

Profit/loss for the year remains substantially unchanged, however, gross profit was affected by DKK 1,175 thousand and Operating profit by DKK 53 thousand. The relatively small impact on profit/loss for the year is due to the depreciation of the right-of-use assets and interest expenses from the lease liabilities being almost equal to operating lease costs.

Recognition and measurement

Revenue are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

Income statement

Revenue

The Company has chosen IFRS 15 as interpretation for revenue recognition and measurement.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally at the time of delivery, provided that the income can be made up reliably and is expected to be received.

The Company considers whether there are separate performance obligations to which a portion of the transaction price needs to be allocated.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties.

Cost of sales

Cost of goods sold comprise the raw materials and consumables consumed to achieve revenue for the entity.

Other external costs

Other external costs comprise costs of premises, sales and distribution as well as office expenses, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance and pensions, and other social security costs, etc., for the Company's employees. Refunds received from public authorities are deducted from staff costs.

Share-based compensation expenses

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

The share-based compensation relate to the shares in the parent company, which also administers the share option scheme. Consequently, the parent company invoices Signify Denmark A/S for the expenses relating to the Danish Company. Signify Denmark A/S recognizes a liability corresponding to the fair value of the equity-settled shares in the parent Company.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Balance sheet

Intangible assets

Acquired customer rights are measured at cost less accumulated amortisation. Acquired customer rights is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	4 years

Depreciation period and residual value are re-assessed annually.

Investments

Deposits are recognised at amortised cost.

Leases

When entering into a contract, the Company assesses whether the contract is a lease or contains a lease component. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When an assessing whether a contract contains a lease component, it must be considered whether, during the period of use, the lessee has the right to substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

The Company recognises a right-of-use asset and a lease liability at the commencement date.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The Company leases cars including a service component in the payments to the lessor. This service is separated from the lease payment when measuring the lease liability. If the Company is unable to reliably separate lease components and non-lease components, it is considered a single lease component.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

The lease payments consist of fixed and variable lease payments that depend on an index or a rate, guaranteed residual values, purchase options and extension options if the Company is reasonably certain to exercise the option and termination penalties if the lease term reflects the Company exercising an option to terminate the lease. The lease liability is subsequently adjusted as follows if:

— The value of the index or rate on which the lease payments are based is changed.

— The exercise of options is changed in order to extend or terminate the lease due to significant events or a significant change in circumstances within the Company's control.

— The lease term is changed if the option is exercised in order to extend or terminate the lease.

— Estimated residual value guarantee is changed.

— The contract is renegotiated or modified.

Any subsequent adjustment of the future lease liability is recognised as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is DKK 0, a negative adjustment to the right-of-use asset is, however, recognised in the income statement.

The right-of-use asset is initially measured at cost comprising amount of initial measurement of the lease liability plus any initial direct costs and any estimated costs of dismantling and removal of the asset at the end of the lease term which the Company is under an obligation to incur and any prepaid lease payments and less any lease incentives received.

The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the right-of-use asset.

Short-term leases with a maximum lease term of 12 months and leases for low-value assets are not recognised in the balance sheet.

Impairment of fixed assets

The carrying amounts of intangible assets, property, plant and equipment and Right-of-use assets are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less write-down for bad debts.

Signify estimates lifetime expected loss allowance by calculating the expected credit losses. 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. Loss allowances are accounted for within other external costs.

Prepayments

Prepayments comprise prepaid expenses concerning e.g. rent, insurance premiums and subscriptions.

Equity

Dividends

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of replacing products within the warranty period of up to five years as well as onerous contracts and decommissioning obligations.

Provisions for warranty obligations are measured at net realisable value and recognised based on past experience. Other provisions are measured at net realisable value. If the obligation is expected to be settled far into the future, the obligation is measured at net present value.

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1 Accounting policies (continued)

Corporation tax and deferred tax

Deferred tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement ias financial income and expenses.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at net realisable value, usually corresponding to nominal value.

Deferred income

Deferred income comprises advance invoicing regarding income in subsequent years.

DKK'000	2019	2018
2 Staff costs		
Wages and salaries	82,538	88,684
Pensions	7,420	7,377
Other social security costs	196	386
	90,154	96,447
Average number of full-time employees	135	137

Staff costs include remuneration of the Executive Board as well as remuneration of the Board of Directors of DKK 4,968 thousand (2018: DKK 6,393 thousand). By reference to section 98 b of the Danish Financial Statements Act. remuneration of the Executive Board and the Board of Directors is disclosed as a total figure.

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Remuneration of the new CEO, appointed on 1 October 2019, is paid by a group company. Signify Denmark A/S is charged for their share through management fee and therefore not included in the disclosed amount.

Incentive schemes

The Company's Long-Term Incentive Plan (LTI plan) offered to the Executive Board and senior officers consists of a performance share plan and a restricted share rights plan. Performance shares are a conditional award of free shares at the beginning of a three-year performance period. The number of shares that will vest. i.e. will be delivered, after three years depends on the Group's performance against specific goals assessed at the end of the performance period and provided that the person is still employed at the vesting date. Restricted share rights are the rights to receive shares for three years after the award date provided the person is still employed with the Group at that time.

	DKK'000	2019	2018
3	**Depreciation, amortisation and impairment losses**		
	Intangible assets	3,739	3,739
	Property, plant and equipment	6,247	5,929
		9,986	9,668
4	**Financial expenses**		
	Interest expense to group entities	585	817
	Other financial costs	124	115
		709	932
5	**Tax on profit for the year**		
	Current tax for the year	0	1,265
	Deferred tax for the year	951	-392
	Adjustment of current tax concerning previous years	-3,466	0
	Adjustment of deferred tax concerning previous years	283	0
		-2,232	873
6	**Proposed profit appropriation**		
	Retained earnings	2,462	2,608

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7 Intangible assets

DKK'000	Acquired customer rights
Cost at 1 January 2019	18,697
Cost at 31 December 2019	18,697
Amortisation and impairment losses at 1 January 2019	-10,906
Amortisation for the year	-3,739
Amortisation and impairment losses at 31 December 2019	-14,645
Carrying amount at 31 December 2019	4,052

8 Property, plant and equipment

DKK'000	Property, plant and equipment under construction	Fixtures and fittings, tools and equipment	Leasehold improvements	Right-of-use assets	Total
Cost at 1 January 2019	393	8,830	12,980	3,925	26,128
Additions for the year	1,057	103	0	11,345	12,505
Disposals for the year	0	-697	0	0	-697
Transfers for the year	-1,180	0	1,180	0	0
Cost at 31 December 2019	270	8,236	14,160	15,270	37,936
Depreciation and impairment losses at 1 January 2019	0	-5,103	-9,683	0	-14,786
Depreciation for the year	0	-1,220	-3,724	-1,303	-6,247
Reversed depreciation and impairment losses on assets sold	0	243	0	0	243
Depreciation and impairment losses at 31 December 2019	0	-6,080	-13,407	-1,303	-20,790
Carrying amount at 31 December 2019	270	2,156	753	13,967	17,146

DKK'000	31/12 2019	01/01 2019
Right-of-use assets		
Buildings	13,967	3,925
Lease liabilities		
Current	3,392	1,033
Non-current	9,215	2,982
	12,607	4,015

Lease costs for short-term and low value leases in 2019 amounts to DKK 9,167 thousand.

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9 Investments

DKK'000	Deposits
Cost at 1 January 2019	2,400
Additions for the year	999
Disposals for the year	-2,400
Cost at 31 December 2019	999
Carrying amount at 31 December 2019	999

DKK'000	2019	2018

10 Deferred tax asset

	2019	2018
Deferred tax asset at the beginning of the period	4,064	3,672
Deferred tax adjustment for the year	-951	392
Deferred tax adjustment concerning previous years	-283	0
	2,830	4,064
Deferred tax can be specified as follows		
Intangible assets	872	636
Property, plant and equipment	-2,209	902
Provisions	1,045	2,526
Liabilities other than provisions	3,049	0
Tax loss carryforwards	73	0
	2,830	4,064

11 Prepayments

Prepayments are costs paid regarding subsequent years, like rent, insurance and subscriptions.

12 Equity

The contributed capital consists of 3,500 shares of a nominal value of DKK 1,000 thousand. The contributed capital represented DKK 500 thousand as of 7 July 2015 and was increased by a capital injection in 2015/16 of DKK 3,000 thosuand to the total of DKK 3,500 thousand.

All shares rank equally.

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13 Other provisions

The Company provides warranties on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of DKK 5,712 thousand have been recognised for expected warranty claims. Moreover, the Company has recognized other provisions of DKK 1,249 thousand regarding decomissioning obligations, with the expected maturity being at the end of the lease in December 2024.

DKK'000	Within 1 year	Between 1 and 5 years	Total
The provisions are expected to mature as follows:	3,325	3,636	6,961

14 Non-current liabilities other than provisions

Payments due within 1 year are recognised as short-term debt. Other debt is recognised as long-term debt. No liabilities fall due more than 5 years after the balance sheet date.

Debt falls due for payment as specified below:

DKK'000	Lease obligations	Payables to group entities	Other payables
Between 1 and 5 years	9,215	57,371	2,453
Short-term part	3,392	0	30,187
	12,607	57,371	32,640

Non-current other payables consist of frozen holiday obligations.

15 Contractual obligations, contingencies, etc.

Contingent liabilities

The Company was jointly taxed with the Philips Group's other Danish entities until November 2017.

The Company is jointly liable by surety for the Group's banking facilities.

The Company is a party to a few pending disputes due to nature of its business. In Management's opinion, these disputes will not affect the Company's financial position other than the obligations which are recognised in the balance sheet at 31 December 2019.

DKK'000	2019	2018
Operating lease obligations		
Premises	0	12,431
Cars	3,458	2,973
	3,458	15,404

Obligations regarding premises, period of interminability up to 5 years.

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16 Related party disclosures

Signify Denmark A/S' related parties comprise the following:

Control

Signify Holding B.V., The Netherlands.

Signify Holding B.V., holds the majority of the contributed capital in the Company.

Signify Holding B.V. is the largest group in which the Company is included as a subsidiary.

The Group Annual Report of Signify Holding B. V. may be obtained at the following address:

High Tech Campus 48, 5656AE Eindhoven, The Netherlands.

Related party transactions

Transactions with related parties for the year comprise the following:

Sale of goods to group entities, DKK 36,456 thousand

Sale of services to group entities, DKK 10,565 thousand

Purchase of goods from group entities, DKK 314,635 thousand

Purchase of services from group entities, DKK 8,988 thousand

Interest expenses to group entities, DKK 585 thousand

Receivables from group entities, DKK 0 thousand

Payables to group entities, long term, DKK 57,371 thousand.

Payables/receivables to/from group entities are disclosed in the balance sheet. and interest expenses to group entities are disclosed in note 4.

17 Events after the balance sheet date

After the end of the financial year, Coronavirus - COVID 19 has hit the world with full force.

The Company has been affected and will be affected by this pandemic in various parts of the business, which means that there is a risk of negative financial impact.

The development is being followed closely, and a number of measures have been taken to try to reduce the impact on the business. The company has a financial position that can withstand a significant decline in business activity. Therefore, COVID-19 is not assessed to impact the Company's financial position.

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