# Signify N.V.

## Remuneration Policy
## Board of Management

signify

## 1 Introduction

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

### Signify's value creation model

**The value created by Signify goes beyond financial performance alone. Signify's approach is to optimize value through financial, environmental and social resources. Its activities and way of doing business impact customers, employees, investors and society at large. Signify expresses these impacts in monetary terms in its annual report.**


The following principles apply for the remuneration policy of the Board of Management:

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

## 2 Changes compared to the previous policy

This remuneration policy replaces the policy adopted by the Annual General Meeting of Shareholders in 2017. Substantial changes compared to that policy are:

- **Base salary:** The Supervisory Board determines the base salary of each of the members of the Board of Management, based on the remuneration policy. Whereas in the past salary increases of employees were already taken into account in determining the base salary, this policy formalizes that the base salary levels of the members of the Board of Management may not be adjusted with a higher percentage than a collective labor agreement (CLA) increase agreed for the CLA population in the Netherlands. See part 4 below.
- **Annual cash incentive:** Similar to the 2017 remuneration policy, the Supervisory Board can select annually two or three financial performance measures from a pre-defined list, and determine the weighting per performance measure. This policy replaces the list by the following performance indicators: growth (such as comparable sales growth), profit (such as adjusted EBITA or net income), cash flow (such as average working capital or free cash flow) investment return (such as return on capital employed). See part 6 below.

- **Long-term incentive:** The following changes to the performance measures are made:
  - to add a fourth performance measure: return on capital employed
  - to give each performance measure an equal weighting of 25%
  - for the total shareholder return performance measure: to adjust the pay-out curve, with no vesting for performance below median.

  See part 7 below. Changes to the performance measures under the long-term incentive plan apply to grants as from January 1, 2020.

## 3 Remuneration components

The compensation package for the members of the Board of Management consists of the following fixed and variable components:

- base salary
- annual cash incentive
- long-term equity-based incentive
- pensions and other benefits

The combination of a member's base salary, annual cash incentive and long-term equity-based incentive, together referred to as the "total direct compensation", is targeted around the median level of a representative labor market peer group and benchmarked annually. This peer group consists of 50% Dutch headquartered cross-industry companies that are included in the AEX or AMX, and 50% European sector specific companies.

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

**Signify labor market peer group**

| | | |
|---|---|---|
| Aalberts | DSM | Prysmian Group |
| AkzoNobel | KPN | Rexel |
| ASML | Legrand | Rheinmetall Group |
| BAM | Nexans | Siemens Gamesa |
| Boskalis | Osram | |

The Supervisory Board reviews the peer group on a regular basis and may adjust to ensure that the companies in the group remain relevant peers.

## 4 Base salary

The base salary compensates for the individual's experience, skills, duties, responsibilities and the contribution of the individual within Signify. The base salary of each member of the Board of Management is a fixed cash compensation paid on a monthly basis. The Supervisory Board determines the base salary and may, at its discretion, apply an increase. The base salary may not be adjusted with a higher percentage than a collective labor agreement (CLA) increase agreed for the CLA population in the Netherlands.

## 5 Variable remuneration

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

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

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

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

## 6 Annual cash incentive

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

The on-target annual incentive level for the CEO is set at 80% of base salary, while for the other members of the Board of Management the on-target annual incentive is set at 60% of their base salary. For each member, the maximum annual incentive is capped at twice the on-target percentage (minimum is 0%).

80% of the annual cash incentive is related to financial performance measures and focuses on the realization of strategic business objectives. 20% of the annual cash incentive is related to team and individual performance measures.

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

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

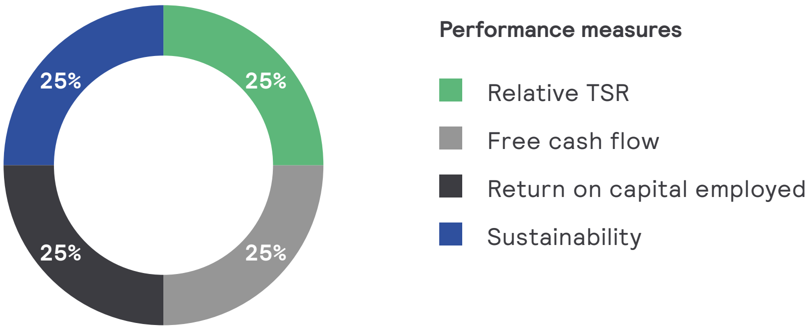
## 7 Long-term equity-based incentive

Members of the Board of Management are eligible for a long-term equity-based incentive under Signify's long-term incentive plan. The objective of the long-term incentive is to link pay with long-term sustainable value creation.

For the CEO, the annual on-target grant value is set at 100% of base salary and for the other members of the Board of Management at 80% of base salary. The following applies to grants to members of the Board of Management as from January 1, 2020.

### Key features

- The long-term incentive is granted in performance shares only and are conditionally granted annually.
- The vesting of performance shares is conditional upon the achievement of performance conditions measured over a period of three financial years.
- This performance is measured using four performance measures: relative total shareholder return, free cash flow, return on capital employed and sustainability, with each measure having an equal weighting of 25%.
- Pay-out per performance measure can vary between 0% and 200%.




## Relative total shareholder return (TSR)

Relative total shareholder return (TSR) measures the share price growth plus dividends paid over the three-year performance period. Performance is expressed as a percentage. This percentage is compared to the TSR performance of companies included in the peer group specifically compiled for this purpose. The TSR performance is determined for each company in the peer group and the performances are ranked from top to bottom. Signify's position in the ranking, together with the pay-out curve, determines the pay-out level.

As of January 2020, the TSR peer group consists of the following 15 companies:

**TSR peer group**

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

The peer group is reviewed on a regular basis to ensure that the companies in the group remain relevant peers. In case a peer needs to be replaced due to a corporate event (merger, acquisition, 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.

## Free cash flow & Return on capital employed

The targets and intervals around these measures are determined by the Supervisory Board, based on the company's strategic, multi-year plan.

## Sustainability

The targets and intervals around these measures are determined by the Supervisory Board, based on company's strategic, multi-year plan. As targets set usually are both qualitative as well as quantitative, set ambitious and adjusted regularly, the assessment of the performance is at the discretion of the Supervisory Board. The discretionary decision will use tracked performance as input.

## 8 Share ownership guidelines and holding requirements

Under the Signify share ownership guidelines, members of the Board of Management shall hold a certain value in shares in the company. These guidelines are designed to further align the interest of the members of the Board of Management (and certain other leaders within Signify) with the interests of its shareholders. For the CEO, the value in Signify shares to be held is 300% of base salary and for the other members of the Board of Management this is 200% of base salary. The guidelines

**Performance-incentive zone for TSR in % of grant value**

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

require that all after-tax shares be retained until the required level is met.

In addition, members of the Board of Management must comply with holding requirements under the Dutch corporate governance code. At the date of entry into force of this remuneration policy, this means that members of the Board of Management must hold after-tax shares obtained under the long-term incentive plan for a period of at least five years after the grant date.

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

## 9 Pension and other benefits

The following pension arrangements are in place for the members of the Board of Management:

- Flex pension plan in the Netherlands, which is a collective defined contribution plan up to the maximum pensionable salary (2020: EUR 110,111).
- Gross pension allowance in relation to the part of base salary exceeding the maximum pensionable salary under the flex pension plan. Members of the Board of Management can, on a voluntary basis, choose to participate in a net pension arrangement by investing the net (after tax) amount.
- Temporary gross transition allowance for a maximum period of eight years, applicable to members of the Board of Management who were employed and participated in the former executive pension plan before January 1, 2015, when the flex pension plan was amended by capping the pension accruals and increasing the pensionable age in line with the retirement age for state pension (AOW).

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

## 10 Claw back and change of control

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

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

## 11 Contractual arrangements

**Terms of engagement:** Members of the Board of Management are engaged by a service contract with a four-year term ending on the date of the Annual General Meeting of Shareholders in the fourth calendar year after the appointment.
**Term of appointment:** Members of the Board of Management are appointed for a period of four years, subject to re-appointment by the General Meeting of Shareholders.
**Notice period:** Termination of the services contract is subject to a notice period of six months for either party.
**Severance arrangements:** Severance payments are capped at one annual base salary.

## 12 Hiring policy

In case of appointments to the Board of Management, both in case of internal appointments or an external hire, the Supervisory Board will determine the remuneration of the individual in accordance with this remuneration policy. In doing so, the Supervisory Board may, at their sole discretion, consider applying some of the following items, which form an integral part of this remuneration policy:

- Depending on the date of appointment or date of hire, (a) for the annual cash incentive: to set pro rata targets and amount over the first (partial) year, and (b) for the long-term equity based incentive: to set a pro rata grant size or to make the first LTI grant at the first possible grant date after appointment of as member of the Board of Management.
- In case of internal promotions, to continue to honor commitments made prior to the appointment as member of the Board of Management as new remuneration arrangements apply.
- In case of external hires, to award cash or share-based sign-on awards, covering compensation that the new member of the Board of Management forfeits by leaving previous employers. This shall be made public as part of the proposal for appointment of that member of the Board of Management.
- To offer alternative benefits such as pensions or insurances with an equivalent value in an international context, and to compensate double taxation or social security costs.

## 13 Deviation from the remuneration policy

In exceptional circumstances, the Supervisory Board shall be allowed to deviate from the policy, and ultimately until a new remuneration policy is adopted by the General Meeting of Shareholders. Exceptional circumstances cover only situations in which the deviation from the remuneration policy is necessary to serve the long-term interests and sustainability of the company as a whole or to assure its viability. In these circumstances, deviations may relate to the total direct compensation or components thereof. Deviations shall be aligned with the main objectives and principles of the remuneration policy.

## 14 Adoption, review and implementation of the remuneration policy; stakeholder engagement

### Roles

The Supervisory Board is responsible for proposing the remuneration policy for the members of the Board of Management for adoption by the General Meeting of Shareholders. The remuneration of the individual members of the Board of Management is determined by the Supervisory Board based on this policy.

The Supervisory Board has established a Remuneration Committee with members from among its midst. This committee reviews and prepares proposals for the Supervisory Board on the remuneration policy for the Board of Management. It also reviews the implementation of the policy and prepares proposals for the Supervisory Board in relation hereto. The role, responsibilities and functioning of the Remuneration Committee is described in more detail in its charter, which is available on the company's website.

### Review process and stakeholder engagement

The previous remuneration policy for the Board of Management was established at the time of the company's IPO in May 2016. In 2017, the long-term incentive was introduced and some changes to the annual cash incentive were made.

In 2019, the Remuneration Committee initiated a review of the remuneration policy. The Remuneration Committee was supported by both internal rewards experts and an independent external advisory firm. Various matters were taken into account as part of this review, including the company's purpose, values and strategy, benchmark studies among similar companies, gap analyses versus market and best practices, feedback from shareholders and other stakeholders, remuneration scenario analyses and the company's remuneration structure and pay ratio.

The works council is embedded within the organization of Signify Netherlands B.V. and does not have a formal role in setting the remuneration policy at the level of Signify N.V.

## Signify pay structure and grades

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

**In its annual report, Signify annually reports on the pay ratio. Signify believes that the pay ratio over the past years aligns with Signify's profile, considering the company's industry, workforce profile and geographical spread. The pay ratio over the past years did therefore not result in proposing any further amendments to the remuneration policy for the members of the Board of Management.**

## Proposal to adopt remuneration policy by the AGM 2020

The Supervisory Board and its Remuneration Committee found that the existing design of the remuneration policy for the Board of Management is still adequate. The main changes compared to the 2017 policy are reflected in part 2 above. The policy is also brought in line with the recently introduced statutory requirements.

The Supervisory Board proposes the remuneration policy as set forth in this document to the Annual General Meeting of Shareholders 2020 for adoption, taking effect as from January 1, 2020.