

Registered number: 00291612

Signify Commercial UK Limited
Annual report and financial statements
for the year ended 31 December 2020



Signify Commercial UK Limited

Contents

	Pages
Company Information	1
Strategic Report	2-5
Directors' Report	6-11
Independent Auditor's Report to the members of Signify Commercial UK Limited	12-14
Statement of Comprehensive Income	15
Balance Sheet	16
Statement of Changes in Equity	17
Notes to the financial statements	18-38

Signify Commercial UK Limited

Company Information

Directors

S Rouatt
M Denny
B Lumsden
L Millns

Company secretary

L Millns

Registered number

00291612

Registered office

3 Guildford Business Park
Guildford
Surrey
GU2 8XG

Auditor

Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

Signify Commercial UK Limited

Strategic Report for the year ended 31 December 2020

The Directors of Signify Commercial UK Limited (the "company") present their Strategic Report and audited financial statements, for the year ended 31 December 2020.

Principal activities

The company's principal activity is sale and marketing of innovative, energy-efficient lighting products, systems and services in the United Kingdom.

Strategy

The company is part of a group of companies that consists of Signify N.V. and its subsidiaries (the 'group').

The company's strategic direction is driven by the group's mission and vision and is shaped by the group's strategic priorities. These priorities include: optimising cash from conventional products to fund growth, leading the innovation in LED products, leading the shift to systems and services, extending customer relations and distribution networks and implementing programs aimed at minimising waste and increasing the efficiency of the value chain.

Business review

The COVID-19 pandemic had and is continuing to have an unprecedented impact on our macroeconomic environment and society at large. Our focus is first and foremost on the health, safety and wellbeing of our employees, customers, partners and people around us. From the pandemic's outset, we put in place a local team to monitor the situation and act appropriately given the advice of government and local authorities. This has led us to close the office and working from home, restrictions on travel, and stringent hygiene and health measures at our locations.

In order for our company to be resilient against the economic impact of the pandemic we implemented a range of financial measures. These included a solidarity measures program where employees could opt to take a voluntary worktime reduction of 20%. In January 2021, in recognition of the sacrifice and solidarity of our people and shareholders, we announced that we will return the solidarity contribution to our employees.

In these difficult market dynamics caused by the COVID-19 pandemic, the company reported sales of £134.8m (2019: £155.7m), had net assets at 31 December 2020 of £5.5m (2019: £8.8m), with healthy net current assets of £34.3m (2019: £29.6m). The performance in 2020 reflected a challenging macro environment, with higher overall uncertainty and lower market activity.

Digital Solutions focuses on strengthening its global Professional lighting leadership position by further innovating in LED products, winning in Systems & Services and unlocking the potential in businesses such as agriculture, solar, disinfection lighting and 3D printing. At the same time, Digital Solutions leverages its scale to reduce cost of production. Sales declined with 10.0% as a direct result of the COVID-19 pandemic. Digital Solutions executes its strategy built around growth for sustainability through attractive growth platforms such as connected lighting, agriculture lighting, solar lighting, 3D printed luminaires, disinfection lighting and human-centric lighting.

Effective Q2 2020, LED and Home were combined into Digital Products. The Division sells a wide variety of LED lamps, namely spots, bulbs and tubes, to the professional and consumer channels. In addition, it sells LED electronic components, consisting of LED drivers and LED modules, to OEMs for professional luminaire applications in the retail, office, industry and outdoor segments. It is the global market leader in connected home systems and a top-three player in selected home luminaires markets. The Division develops and sells connected lighting systems and luminaires. 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.

Signify Commercial UK Limited

Strategic Report (continued) for the year ended 31 December 2020

Business review (continued)

The Philips Hue offering is continuously expanding. Recent examples of new innovations include the launch of the Philips Hue Play gradient lightstrip, new Filament lamps and the Philips Hue White lustre bulb. Sales Digital Products declined with 5.4% as a direct result of the COVID-19 pandemic and fierce competition in LED from low-cost manufacturers and competitors.

While the decline in conventional lamps is ongoing, the company strives to continue its increase of market share and profitability. Conventional products decline is lower than the overall decline of conventional products in the market. This performance reflected the successful implementation of the company's "last man standing" strategy, which focused on optimising cash flow by winning market share.

Key financial performance indicators

The company measures its performance on a number of key performance indicators, including turnover, sales growth and current ratio.

Principal risks and uncertainties

The company operates a coordinated set of risk management and control systems to help anticipate, monitor and manage its exposure to risk. The company's risk management and control systems are aligned and integrated with the systems of the group.

The company's risk management focuses on the following risk categories: Strategic, Operational, Compliance and Financial risks. Risk management forms an integral part of the business planning and review cycle. The company's risk and control policy is designed to provide reasonable assurance that 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. It makes management responsible for identifying critical business risks and for the implementation of appropriate risk responses.

The spread of the COVID-19 outbreak has caused severe disruptions in the UK and global economy and financial markets and has created widespread business continuity issues in general of a huge magnitude and unknown duration. The COVID-19 pandemic had and is continuing to have an unprecedented impact on our macroeconomic environment and society at large. Many countries, including UK, have reacted by instituting quarantines, mandating business and restricting travel. This outbreak triggers a period of global economic slowdown or a global recession. Our focus is first and foremost on the health, safety and wellbeing of our employees, customers, partners and people around us. From the pandemic's outset, we put in place a local team to monitor the situation and act appropriately given the advice of government and local authorities. This has led us to close the office and working from home, restrictions on travel, and stringent hygiene and health measures at our locations.

We are closely monitoring the potential impact of COVID-19 on our 2021-2022 financial results and cashflows and have prepared a detailed risk assessment and revised projections for the business. Included in this risk assessment we have prepared a reverse stress test including different risk scenarios. The most significant potential impact on our financial results and cashflows resulting from COVID-19 is in relation to Supply Chain, Customer Orders and Order Fulfilment. While strong results in our consumer business, the professional project business have been more challenged, partly as a result of governmental restrictions. However, due to the transfer pricing agreement with its parent, the company remains cash positive at the operating level. Under the more extreme scenarios, parental support may be required to fund the costs associated with the closure of the Hamilton factory. This parental support has been confirmed for a period of a minimum of 12 months from the date of signing the financial statements.

The company's risk management approach is embedded in the areas of corporate governance, Signify Business Control Framework and Signify General Business Principles. These are described in further detail in the Annual Report included in the Consolidated accounts of the ultimate parent company in chapter 10 and chapter 12.

Signify Commercial UK Limited

Strategic Report (continued) for the year ended 31 December 2020

Future developments

The company will continue to be actively involved in delivering the group's mission and vision in future periods. The Directors expect future developments and activities that are consistent with group's strategic focus as set out in the Annual Report included in the Consolidated accounts of the ultimate parent company on pages 11-30 available on company's website www.signify.com.

The company's objective over the coming years is to consolidate its leading position in the UK lighting market while continuing to develop growth initiatives, driving operational excellence and investing in innovation and sales development. It is expected that turnover will grow as the company progresses through the transition to LED and from a business model which is predominantly product-based to one focused on systems and solutions.

S172 statement

Stakeholders

The Board of Directors, in line with their duties under s172 of the Companies Act 2006, recognises that the long-term sustainable success of the company is dependent on the way it interacts with a large number of stakeholders.

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

- Customer first
- Greater together
- Game changer
- Passion for results
- Always act with integrity

Our responsibilities extend to our customers, employees, suppliers, the local community, and the environment around us.

We engage with our stakeholders in a variety of ways, including:

Our customers

We provide our customers with high-quality, energy-efficient lighting products, systems and services. Customer satisfaction is one of our four company values, and at the core of our Road to Excellence, a company-wide journey to streamline our business processes and allow for better cooperation. Our customer engagement processes include: Joint (research) projects, business development, lean value chain projects, consumer panels, Net Promoter Scores, training centres, social media, customer surveys, key account management (several times per week), sustainability exchanges with customers.

Our employees

We attract, inspire and develop exceptional people who share our passion to improve people's lives through meaningful innovation. They demonstrate this by living our values: customer first; greater together; game changer, passion for results - while always acting with integrity. Our people reflect our customers and markets. We develop our people to become outstanding leaders, to drive operational excellence, and to provide world-class competencies in our priority areas.

Our suppliers

Our supplier engagement includes supplier development and quality activities including topical training sessions (4 times per year), supplier forums, industry working groups such as EPRM and RBA, and the commodity management, supplier quality and procurement engineering functions.

Signify Commercial UK Limited

Strategic Report (continued) for the year ended 31 December 2020

S172 statement (continued)

Our communities

The company supports employee volunteering schemes that give back to local charities and good causes. Additionally, employees raise money to help provide for community groups and charities.

Our environment

At Signify, we are taking a leading role to bring better light to the world and to help provide a more sustainable future. We do this by delivering light which is energy efficient, saves resources, and improves lives. At Signify, we also 'walk the talk' and achieved carbon neutrality in 2020. We are driving our zero waste to landfill program, striving for a zero-injury workplace, and are engaging suppliers for a sustainable supply chain.

By order of the Board



**M Denny
Director**

**Registered office:
3 Guildford Business
Park
Guildford
Surrey
GU2 8XG**

24 September 2021

Signify Commercial UK Limited

Directors' Report for the year ended 31 December 2020

The Directors present their Directors' Report and the audited financial statements of the company for the year ended 31 December 2020.

Results and dividends

The company's results for the financial year are set out in the Statement of Comprehensive Income on page 16. No dividend was paid to the immediate parent undertaking and only shareholder of the company (2019: £1.2m).

Future developments

An indication of the likely future developments of the company are provided in the Strategic Report.

Directors

The Directors who held office during the year and to the date of signing the financial statements, unless otherwise indicated, are as follows:

S Rouatt (appointed 2 November 2020)
M Denny (appointed 5 August 2020)
B Lumsden
L Millns
R de Weert (resigned 21 January 2020)
J Pola (resigned 2 November 2020)

Employee involvement

Signify Commercial UK Limited values the contribution of all employees. The company has been working to increase organisational effectiveness and to simplify its structure in order to become even more market-driven and people-centric. Signify Commercial UK Limited believes it is important that employees are engaged i.e. that they feel part of a team, know their ideas and suggestions count, trust their manager, and value diverse perspectives. The company continues to provide employees at all locations with information related to their particular business. It is considered crucial that employees communicate properly and that everyone is given full opportunity to use their individual talents. Information such as production targets and achievements is communicated at departmental and establishment levels. Leaders who do well in connecting employees with the long-term ambitions of Signify Commercial UK Limited are highly recognised. Employees have the opportunity to participate in the success of the company through the Signify Share Incentive Plan.

The company is committed to equal opportunities for all, free from discrimination and harassment. The company's policy is to consider disabled workers for all suitable vacancies and to continue to employ and assist wherever possible workers who become disabled, giving appropriate training assistance necessary and to develop their skills and capabilities.

Qualifying third party indemnity provisions

A qualifying third party indemnity provision as defined in Section 232(2) of the Companies Act 2006 is in force for the benefit of each of the Directors and the company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, a Directors' and officers' liability insurance policy was maintained by the group throughout the financial year.

Signify Commercial UK Limited

Directors' Report (continued) for the year ended 31 December 2020

Streamlined Energy and Carbon Reporting (SECR)

Reporting Requirements

Signify is required to disclose energy and carbon information in their accounts and reports, including:

- UK energy use (to include as a minimum purchased electricity, gas and transport)
- Associated greenhouse gas emissions.
- At least one intensity ratio
- Previous year's figures for energy use and GHG emissions (except in the first year).
- Information about energy efficiency action taken in the organisation's financial year.
- Methodologies used in calculation of disclosures.

The UK government's Streamlined Energy and Carbon Reporting (SECR) policy was implemented on 1 April 2019, when the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 came into force. Signify Commercial UK Limited meets the SECR qualification criteria in the UK. We have opted to use the Operational Control boundary definition to define our carbon footprint boundary. Included within that boundary are Scope 1 & 2 emissions, as well as Scope 3 emissions from gas, electricity and company fleet in the UK. The GHG Protocol Corporate Accounting & Reporting Standard and UK Government's GHG Conversion Factors for Company Reporting have been used as part of carbon emissions calculation.

This report details the environmental impact of our UK operations including energy use associated with the Head Office and transport activities (Company car fleet). As well as meeting legal obligations there are direct benefits to measuring and reporting of environmental performance including the ability to set targets and formulate action plans, lower energy costs and have a clearer understanding of exposure to the risks of climate change.

Environmental Policy

At Signify, our commitment to the environment starts with aligning our business and strategy with the Sustainable Development Goals (SDG) most relevant for our business and operations. These are: SDG 7 Affordable and clean energy, SDG 12 Responsible production & consumption, and SDG 13 Climate action.

We focus on prevention and minimizing the impact of our operations, business, and supply chain on the environment. We are committed to continuously exploring opportunities and solutions to further decrease our environmental impact in a technically and economically feasible manner. The environmental performance of our operations focuses on carbon neutrality, 100% renewable electricity, zero waste to landfill, preventing pollution, reducing emissions to air, soil, and water, minimizing the use of water, and protecting biodiversity.

The environmental performance of our lighting solutions focuses on the areas of Climate action and Circular economy, which are an integral part of our company strategy. In this way we also help to reduce the environmental impact at our customers. Further, the environmental performance of our products is evaluated over their total life cycle. We apply sustainable design principles in our innovation process so that product and system designs are based on the focal areas: energy, circularity, weight & materials, packaging and substances. We work with our supply chain on environmental responsibility and continuously drive compliance and improvement through audits and training in at-risk countries. Our programs in the supply chain additionally focus on substance management, conflict minerals and support to reduce our suppliers' carbon footprint.

Energy Efficiency Actions

We have completed phase II of the Energy Saving Opportunity Scheme (ESOS), which is an energy assessment and energy saving identification scheme. The process identified a range of energy and carbon saving opportunities across our office space and company car fleet. Signify consume 100% renewable electricity backed by RECO certification.

Energy Efficiency Targets

Signify are looking to target further carbon reductions associated with the company car fleet through the implementation of a new EV car policy.

Signify Commercial UK Limited

Directors' Report (continued) for the year ended 31 December 2020

Streamlined Energy and Carbon Reporting (SECR) (continued)

SECR Scope

The following sites make up the total energy consumption:

3 Guildford Business Park

Guildford

Surrey

GU2 8XG

Scope 1 and 2 emissions breakdown

Activity	Units	tCO ₂ e	% of Total
Scope 1			
Natural Gas (kWh)	195,918	36.0	8.0%
Company Fleet (kWh)	1,622,047	385.0	85.3%
Subtotal	1,817,966	421.0	93.3%
Scope 2			
Electricity (kWh)	130,535	30.4	6.7%
Subtotal	130,535	30.4	6.7%
Total	1,948,501	451.4	100%

Intensity Metric

Intensity Metric	tCO ₂ e
Total Gross Emissions (tCO ₂ e)	451
Gross Turnover (£m)	124.7
Tonnes of Gross CO ₂ e per Gross Turnover £m	3.6

The results show that our total energy use and total gross Greenhouse Gas (GHG) emissions amounted to 1,948,501kWh and 451 tonnes of CO₂e respectively in the 2020 financial year in the UK. We have chosen 'Tonnes of Gross CO₂e per Gross Turnover £m' as an intensity metric as this is an appropriate metric for the business. The Company will compare their performance over time with this metric.

Scope 3 emissions from gas, electricity and company fleet in the UK

Activity	Units	tCO ₂ e
Indirect Other (Scope 3)		
WTT Natural Gas (kWh)	195,918	4.7
WTT Company Fleet	1,622,047	101.8
Electricity (T&D) (kWh)	130,535	2.6
WTT Electricity (Generated and T&D) (kWh)	130,535	4.6
Total		113.6

Signify Commercial UK Limited

Directors' Report (continued) for the year ended 31 December 2020

Streamlined Energy and Carbon Reporting (SECR) (continued)

Emissions and Energy Usage Summary

In scope of the SECR legislation, we have collated energy and associated greenhouse gas emissions, to include as a minimum purchased electricity, gas and transport.

GHG emissions and energy use data for period 1 January 2020 to 31 December 2020

	Current Reporting Year
	01/01/20 - 31/12/20
Scope 1 emissions/tCO ₂ e	421
Scope 2 emissions(location-based)/tCO ₂ e	30
Total gross Scope 1 & Scope 2 emissions/tCO ₂ e	451
Energy consumption used to calculate above emissions: kWh	1,948,501
Gross Turnover (£m)	124.7
Intensity ratio: tCO ₂ e (gross Scope 1 + 2) / Gross Turnover (£m)	3.6
Methodology	Tonnes of Gross CO ₂ e per Gross Turnover £m
Carbon Offsets/tCO ₂ e	451
Total annual net emissions/tCO ₂ e	0
Total annual net emissions/tCO ₂ e	0

Methodology

1. This assessment has been made in line with The Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance (2019).
2. The conversion factors used in this report are taken from the annually released Government emission conversion factors for greenhouse gas reporting by the Department for Business, Energy & Industrial Strategy (BEIS).
3. Figures are based on the reporting year 01/01/2020 to 31/12/2020.
4. Utility data for electricity and gas were obtained from fiscal billing
5. Company car usage based on contracted mileage and mpg efficiency

Signify Commercial UK Limited

Directors' Report (continued) for the year ended 31 December 2020

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102").

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Going concern

The Directors are closely monitoring the potential impact of COVID-19 on the 2021-2022 financial results and cashflows and have prepared a detailed risk assessment and revised projections for the business until September 2022. Included in this risk assessment is a reverse stress test with four different risk scenarios. The most significant potential impact of these scenarios on the financial results and cashflows is in relation to Supply Chain, Customer Orders and Order Fulfilment. While we have strong results in our consumer business, the professional project business has been more challenged, partly as a result of governmental restrictions from COVID-19. However, due to the transfer pricing agreement with its parent, the company remains cash positive at the operating level.

Signify Commercial UK Limited

Directors' Report (continued) for the year ended 31 December 2020

Going concern (continued)

Under the more extreme scenarios, parental support may be required to fund the ongoing costs associated with the closure of the Hamilton factory and the rehabilitation of the land prior to sale. This parental support has been confirmed until September 2022. On the basis of their assessment of the company's financial position, the company's Directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Post balance sheet events

Per 1 January 2021, the Brexit transition period has ended. Signify supply chain has gone live as according to the new trading deal between EU and UK. Tariffs have been kept at the same level as before the trading deal, new customs declarations procedures have been implemented.

In January 2021, Signify communicated a further plan that aims to enhance its competitiveness by optimizing the cost base, making the central organization leaner and improving the performance culture. These changes are enabled by a revised organizational structure and will lead to a reduction of approximately 600 positions globally (representing 2% of total Signify workforce). What the total impact will be on the workforce in United Kingdom is currently under review.

In March 2020, the acquisition of Cooper Lighting Solutions was completed by Signify N.V., the company's ultimate parent. Part of the Cooper Lighting Solutions business in UK will be integrated into the company per January 2022. The total impact is currently under review.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and Ernst & Young LLP will therefore continue in office.

By order of the Board



M Denny
Director

Registered office:

**3 Guildford Business Park
Guildford
Surrey
GU2 8XG**

24 September 2021

Independent Auditor's Report to the members of Signify Commercial UK Limited

Opinion

We have audited the financial statements of Signify Commercial UK Limited for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern until September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to the members of Signify Commercial UK Limited (continued)

Other information (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement as set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are 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 unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about 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 (UK) will always detect a material misstatement when it exists. 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 economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the members of Signify Commercial UK Limited (continued)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the accounting and reporting framework such as FRS102 and the Companies Act 2006, direct and indirect tax compliance regulations, as well as relevant employment laws in the United Kingdom. In addition, the Company has to comply with laws and regulations governing anti-bribery, and corruption, data protection and health & safety.
- We understood how Signify Commercial UK Limited is complying with those frameworks by making regular enquiries of senior management regarding any non-compliance with laws and regulations, and any whistle-blower complaints. We have corroborated these discussions by inspecting all the board minutes to date and review of central procedures performed at the group level which consists of inspection of internal audit and compliance reports, as applicable to Signify Commercial UK Limited.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by assessing revenue cut-off as a fraud risk. To address the fraud risk, we performed procedures to confirm the associated shipping terms and conditions that impact revenue recognition through review of related supporting documents or using alternative procedures to determine that transactions tested were recorded in the correct period. We also incorporated data analytics into our testing of revenue recognition and manual journals and performed cash anchor testing.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved journal entry testing with a focus on journals which met our risk criteria based on our understanding of the business and the assessed fraud risks, including testing tax balances.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Nikki Forster (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Southampton
27 September 2021

Signify Commercial UK Limited

Statement of Comprehensive Income for the year ended 31 December 2020

	Note	2020 £000			2019 £000		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Turnover	5	134,188	607	134,795	146,583	9,068	155,651
Cost of sales		(108,196)	(720)	(108,916)	(119,018)	(6,354)	(125,372)
Gross profit		25,992	(113)	25,879	27,565	2,714	30,279
Distribution costs		(2,131)	-	(2,131)	(1,873)	-	(1,873)
Administrative expenses		(20,706)	77	(20,629)	(22,038)	-	(22,038)
Exceptional items		-	(6,097)	(6,097)	-	(10,592)	(10,592)
Operating (loss)/profit	6	3,155	(6,133)	(2,978)	3,654	(7,878)	(4,224)
Interest receivable and similar income	9	6	-	6	58	-	58
Interest payable and similar expenses	10	(19)	(3)	(22)	-	(10)	(10)
(Loss)/profit before taxation		3,142	(6,136)	(2,994)	3,712	(7,888)	(4,176)
Tax on loss/profit	11	294	-	294	(768)	615	(153)
(Loss)/profit for the financial year		3,436	(6,136)	(2,700)	2,944	(7,273)	(4,329)
Total comprehensive (expense)/income for the financial year		3,436	(6,136)	(2,700)	2,944	(7,273)	(4,329)

The notes on pages 18 to 38 are an integral part of these financial statements.

The company's results are derived from both discontinued and continuing activities.

Signify Commercial UK Limited

Balance Sheet as at 31 December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Intangible assets	12		3,102		3,712
Tangible assets	13		1,227		1,603
			<u>4,329</u>		<u>5,315</u>
Current assets					
Stocks	14	16,423		15,595	
Debtors	15	41,537		30,021	
Cash at bank and in hand		-		74	
		<u>57,960</u>		<u>45,690</u>	
Creditors: amounts falling due within one year	16	(23,632)		(16,138)	
			<u>34,328</u>		<u>29,552</u>
Net current assets					
			<u>34,328</u>		<u>29,552</u>
Total assets less current liabilities			<u>38,657</u>		<u>34,867</u>
Creditors: amounts falling due after one year	17	(18,984)		(16,736)	
Provisions for liabilities					
Other provisions	19	(14,209)		(9,290)	
			<u>(33,193)</u>		<u>(26,026)</u>
Net assets			<u>5,464</u>		<u>8,841</u>
Capital and reserves					
Called up share capital	20		401		401
Share premium account	21		12,769		12,769
Retained earnings			(7,706)		(4,329)
Total equity			<u>5,464</u>		<u>8,841</u>

The notes on pages 18 to 38 are an integral part of these financial statements.

The financial statements on pages 15 to 38 were approved by the board of Directors on 24 September 2021 and were signed on its behalf by:



M Denny
Director

00291612

Signify Commercial UK Limited

Statement of Changes in Equity for the year ended 31 December 2020

	Called up share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 January 2020	401	12,769	(4,329)	8,841
Total comprehensive expense for the financial year	-	-	(2,700)	(2,700)
Share based payment	-	-	(677)	(677)
At 31 December 2020	401	12,769	(7,706)	5,464

Statement of Changes in Equity for the year ended 31 December 2019

	Called up share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 January 2019	401	12,769	1,184	14,354
Total comprehensive expense for the financial year	-	-	(4,329)	(4,329)
Dividend paid	-	-	(1,184)	(1,184)
At 31 December 2019	401	12,769	(4,329)	8,841

The notes on pages 18 to 38 are an integral part of these financial statements.

The share premium account records the amount above the nominal value received for shares sold, less transaction costs.

Signify Commercial UK Limited

Notes to the financial statements for the year ended 31 December 2020

1. General information

The principal activity of Signify Commercial UK Limited ("the company") is the sale and marketing of innovative, energy-efficient lighting products, systems and services in the UK.

The company is a private company limited by shares and is incorporated, domiciled and registered in England and Wales. The address of its registered office is 3 Guildford Business Park, Guildford, Surrey, GU2 8XG and the registered number is 00291612.

2. Statement of compliance

The individual financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' ("FRS 102") and the Companies Act 2006.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

3.1 Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Discontinued operations

Discontinued operations are components of the company that have been disposed of at the reporting date and previously represented a separate major line of business.

They are included in the statement of comprehensive income in a separate column for the current and comparative periods, including the gain or loss on sale or impairment loss on abandonment.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.3 Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 2 to 5.

The Directors are closely monitoring the potential impact of COVID-19 on the 2021-2022 financial results and cashflows and have prepared a detailed risk assessment and revised projections for the business until September 2022. Included in this risk assessment is a reverse stress test with four different risk scenarios. The most significant potential impact of these scenarios on the financial results and cashflows is in relation to Supply Chain, Customer Orders and Order Fulfilment. While we have strong results in our consumer business, the professional project business has been more challenged, partly as a result of governmental restrictions from COVID-19. However, due to the transfer pricing agreement with its parent, the company remains cash positive at the operating level. Under the more extreme scenarios, parental support may be required to fund the ongoing costs associated with the closure of the Hamilton factory and the rehabilitation of the land prior to sale. This parental support has been confirmed until September 2022.

On the basis of their assessment of the company's financial position, the company's Directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3.4 Exemptions for qualifying entities under FRS 102

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- preparing a statement of cash flows;
- disclosure of key management personnel compensation;
- preparing certain financial instrument disclosures.

The company has taken advantage of these exemptions on the basis that it meets the definition of a qualifying entity and its ultimate parent undertaking includes the related disclosures in its own consolidated financial statements. Details of where those financial statements may be obtained can be found in note 25.

Other than the exemptions taken above, the company has applied the recognition, measurement and disclosure requirements of FRS 102.

3.5 Foreign currency

(i) Functional and presentational currency

The company's functional and presentational currency is the pound sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.5 Foreign currency (continued)

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3.6 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and net of value added taxes.

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, there is no continuing involvement or control over the goods, the associated costs and possible return of the goods can be estimated reliably, recovery of the consideration is probable and the amount of revenue can be estimated reliably.

Revenue from services is recognised when the amount of revenue and the associated costs related to the stage of completion of a contract or transaction can be measured reliably and the recovery of the consideration is considered probable.

3.7 Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements, share-based compensation and long-term service awards.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

(ii) Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the statement of comprehensive income when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate can be made.

(iii) Share-based compensation

The share-based compensation plans for the company's employees are granted by the ultimate parent company and settled with equity instruments issued by ultimate parent company. Share-based compensation is treated as equity settled share-based payments as allowed under Section 26 of FRS 102.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.7 Employee benefits (continued)

The cost of granting share-based payment awards to employees is recognised in the profit and loss account at their fair value at grant date and over the vesting period of the awards. The Black Scholes pricing model and Monte Carlo sampling are used to determine the fair value of the awards.

The cost of the awards is recharged by the ultimate parent undertaking to the company so that the equity contribution resulting from the scheme is presented as a liability.

(iv) Long-term service awards

The costs for long-term service awards are recognized at fair value and recognized in the period in which the benefit is earned by the employees.

(v) Defined contribution pension scheme

The company operates a defined contribution scheme for its employees. A defined contribution scheme is a pension scheme under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the scheme are held separately from the company in independently administered funds.

3.8 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in the tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.9 Intangible fixed assets

Goodwill recognised represents the excess of the fair value (and directly attributable costs) of the purchase consideration over the fair values to the company's interest in the identifiable net assets, liabilities and contingent liabilities arising on business combinations.

Goodwill is amortised by using the straight-line method over its expected useful economic life of 10 years.

3.10 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

The Company assesses at each reporting date whether tangible assets are impaired.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	2%
Plant and machinery:	
Computers	33%
Plant	10% - 25%
Furniture, fixtures and fittings	5% - 20%

Leasehold properties are depreciated on a straight-line basis over the lease period. Land is not depreciated.

No depreciation is provided on assets in the course of construction.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.11 Operating leased assets

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases.

Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Benefits received and receivable as an incentive to sign an operating lease in existence at the date of transition to FRS 102 are recognised on a straight-line basis over the term of the lease.

3.12. Interest receivable and Interest payable

Interest payable and similar expenses include interest payable, finance expenses on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset/are expensed as incurred.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest rate method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

3.13 Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the statement of comprehensive income, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the statement of comprehensive income.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the statement of comprehensive income.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.14 Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value less progress payments. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

At the end of each reporting period, stocks are assessed for impairment. If an impairment is identified, it is charged to the statement of comprehensive income.

3.15 Cash and cash equivalents

Cash and cash equivalents includes deposits held with banks and bank overdrafts.

Bank overdrafts are shown within current liabilities.

3.16 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(i) Warranty and returns provision

The warranty and returns provision relates to the anticipated cost of product returns and to replacements or free of charge service costs associated with product guarantees. The provision is recognized for probable, future costs and match the cost of warranty within the same period sales is recognized. In determining the probable, future costs, historic warranty and returns costs are used in combination with our standard warranty period calculated per product type. Cost incurred are offset against the warranty provision.

(ii) Property related provision

The property related provision relates to dismantling obligations at our Hamilton factory site (demolition of the existing building and structures at the property, including the removal of any asbestos) and decommissioning regarding our office space. This obligation has been recognized after the initial recognition of the related asset as that is the moment that the obligation to dismantle the factory and restore the office space started. In determining the fair value of the provision, assumptions and estimates are made in relation to discount rates, the expected costs to dismantle and remove the plant from the site and the expected timing of those costs. These assumptions and estimates are based on recent investigations, inspections, surveys and quotations from experts. The demolition work started in 2020 and is expected to be finished at the beginning 2022.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.16 Provisions (continued)

(iii) Environmental provision

The environmental provision relates to the legal requirement for decontaminate the land from our factory, including soil and groundwater remediation. This provision is measured at the best estimate of the future clean-up costs taking into account the discount rates. It reflects the amount that the entity would be required to pay to settle the obligation at the reporting date. These assumptions and estimates are based on recent investigations, inspections, surveys and quotations from experts. The work started in 2020 and is expected to be finished the beginning of 2022.

3.17 Basic financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other debtors, amounts owed by group undertakings and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

3. Summary of significant accounting policies (continued)

3.17 Basic financial instruments (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Basic debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.18 Share capital

Ordinary shares are classified as equity.

3.19 Distributions to equity holders

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

3.20 Related party transactions

The company discloses transactions with related parties which are not wholly owned within the Signify group. It does not disclose transactions with members of the group that are wholly owned.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

At 31 December 2020, the company did not make any critical judgements in applying its accounting policies.

(b) Critical accounting estimates and assumptions

The areas where the most significant judgements and estimates are made are as follows:

i) Deferred tax recoverability

The evaluation of the recoverability of deferred tax assets requires judgement about the future taxable profitability of the company. A lack of future taxable profits or taxable profits below the level of current estimates may cause deferred tax assets to be impaired.

ii) Provisions

In order to recognise a provision, it is necessary to reliably estimate the present obligation. Further judgement is required to determine the likelihood of an outflow of economic benefits and to assess the value and timing of the probable outflow. The selection of a suitable discount rate forms part of this judgement.

iii) Rebates

Accumulated experience is used to estimate and provide for the rebates, using the expected value method. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

5. Turnover

The company's activities fall into the following sectors:

	2020 £000	2019 £000
Digital solutions	55,467	61,605
Digital products	62,770	66,359
Conventional products	16,558	27,687
	134,795	155,651

Turnover, all of which is of United Kingdom origin, is analysed by geographical destination as follows:

	2020 £000	2019 £000
United Kingdom	119,467	135,611
Europe	15,328	20,040
	134,795	155,651

6. Operating profit

Operating profit is stated after charging/ (crediting):

	2020 £000	2019 £000
Operating lease rentals:		
- land and buildings	399	617
- other	216	850
Depreciation of tangible fixed assets:		
- owned by the company	376	914
- under leasing	-	54
Amortisation of intangible fixed assets	610	610
Foreign exchange loss/ (gain)	(245)	631
Fees payable to the company's auditor for the audit of the company's annual financial statements	59	68
Exceptional items	6,097	10,592
Stocks recognised as an expense	97,922	112,858

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

6. Operating profit (continued)

Exceptional items include costs directly related to the closure of our factory in Hamilton.

	2020 £000	2019 £000
Changes in environmental provision	4,693	2,482
Changes in property related provision	1,291	1,655
Changes in termination benefits	113	4,185
Write-down inventory	-	982
Impairment of goodwill	-	495
Accelerated depreciation of machinery	-	450
Changes in onerous contracts provision	-	343
	6,097	10,592

7. Employees

The average monthly number of persons employed by the company (including Directors) during the year was as follows:

	2020 No.	2019 No.
Manufacturing	-	65
Commercial	96	93
General and administration	118	130
	214	288

The aggregate payroll costs of these persons were as follows:

	2020 £000	2019 £000
Wages and salaries	12,564	13,522
Social security costs	1,443	1,782
Defined contribution pension costs	1,711	2,125
Termination benefits	303	4,421
Share-based compensation	206	63
	16,227	21,913

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

8. Directors' remuneration

The aggregate emoluments paid to the Directors for the year ended 31 December 2020 amounted to £578,512 (2019: £438,419).

The highest paid director received aggregate emoluments, including a pension contribution for the year ended 31 December 2020 amounting to £246,203 (2019: £196,515).

Pension contributions paid to defined contribution schemes for serving Directors amounted to £103,654 (2019: £78,825).

No shares are receivable or received under long term incentive schemes by directors (2019: 1).

9. Interest receivable and similar income

	2020 £000	2019 £000
Interest receivable from group undertakings	6	58

10. Interest payable and similar expenses

	2020 £000	2019 £000
Interest payable to group undertakings	-	-
Other interest payable	(22)	10
	(22)	10

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

11. Tax on profit

	2020 £000	2019 £000
Corporation tax		
UK corporation tax	426	267
Adjustment in respect of prior years	176	1
Total current tax charge	602	268
Deferred tax		
Origination and reversal of timing differences	(533)	(115)
Adjustment in respect of prior years	(264)	
Effect of changes in tax rates	(99)	-
Total deferred tax (credit)/charge	(896)	(115)
Tax on profit	(294)	153

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
(Loss)/profit before taxation	(2,994)	(4,176)
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	(569)	(793)
Effects of:		
Fixed asset differences	161	243
Expenses not deductible	301	695
Effect of changes in tax rates	(99)	14
Other permanent differences	-	(7)
Adjustments to tax charge in respect of prior years	(88)	1
Total tax charge for the year	(294)	153

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

11. Tax on profit (continued)

Factors that may affect future tax charges

A UK corporation tax rate of 19% (effective from 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17% which was due to be effective from April 2020. This increases the company's current tax charge accordingly. The deferred tax at 31 December 2020 has therefore been calculated at 19% (31 December 2019: 17%).

In March 2021, the UK Government announced that the corporation tax rate will increase to 25% from April 2023. If Finance Act 2021 legislation which was enacted on 10 June 2021 increasing the corporation tax rate to 25% had been enacted as at 31 December 2020, the effect on the deferred tax asset would have been to increase the deferred tax asset with £466.538.

12. Intangible fixed assets

	Goodwill £000
Cost	
At 1 January 2020	6,801
At 31 December 2020	6,801
Amortisation and impairment	
At 1 January 2020	3,089
Amortization charge for the year	610
At 31 December 2020	3,699
Net book value	
At 31 December 2020	3,102
At 31 December 2019	3,712

At 31 December 2020, an impairment review was carried out by the Directors in respect of the goodwill. The carrying amount of the remaining goodwill related to our commercial organization, is concluded to be less than the recoverable amount and as a result no impairment to the carrying value is required.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

13. Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 January 2020	2,854	1,080	3,934
Disposals	-	-	-
At 31 December 2020	2,854	1,080	3,934
Depreciation			
At 1 January 2020	1,328	1,003	2,331
Depreciation charge for the year	321	55	376
At 31 December 2020	1,649	1,058	2,707
Net book value			
At 31 December 2020	1,205	22	1,227
At 31 December 2019	1,526	77	1,603

The net book value of land and buildings comprises:

	2020 £000	2019 £000
Freehold buildings	1,180	1,281
Leasehold buildings	25	245
	1,205	1,526

Included within the cost of land and buildings amounting to £2,854,490 (2019: £2,854,490) are depreciable assets amounting to £2,854,490 (2019: £2,854,490).

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

14. Stocks

	2020 £000	2019 £000
Raw materials and consumables	-	5
Work in progress	1,487	408
Finished goods and goods for resale	14,936	15,182
	<u>16,423</u>	<u>15,595</u>

Stocks recognised as an expense in the year were £97,922,000 (2019: £112,858,000).

The amounts recorded above are net of allowances for obsolescence. The write-down of inventory to net realisable value amounted to £646,470 (2019: £875,525).

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

15. Debtors

	2020 £000	2019 £000
Trade debtors	26,421	27,794
Trading amounts owed by group undertakings	13,286	1,129
Other debtors	276	87
Prepayments and accrued income	77	138
Corporation tax receivable	-	292
Deferred tax asset (see note 18)	1,477	581
	<u>41,537</u>	<u>30,021</u>

Trade debtors are stated after provisions for impairment of £1,086,023 (2019: £741,662).

Trading amounts owed by group undertakings include cash pooling of £12,614,360 (2019: £ 1,037,046).

All debtors are due within one year, unsecured and interest free.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

16. Creditors: amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	4,617	6,428
Trading amounts owed to group undertakings	4,432	184
Other taxation and social security	6,613	2,347
Other creditors	238	427
Accruals and deferred income	7,702	6,752
Corporation tax payable	30	-
	<u>23,632</u>	<u>16,138</u>

Trading amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

17. Creditors: amounts falling due after one year

	2020 £000	2019 £000
Accruals and deferred income	18,984	16,736
	<u>18,984</u>	<u>16,736</u>

Accruals are comprised of all expenses incurred for which no invoice has been received yet at reporting date.

Deferred income relates to the long-term service contracts the company has with its customers.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

18. Deferred tax

	2020 £000
At 1 January 2020	581
Charge to the statement of comprehensive income	896
At 31 December 2020	1,477

The deferred tax asset included in the balance sheet (note 14) is as follows:

	2020 £000	2019 £000
Decelerated capital allowances	133	143
Short term timing differences	1,344	438
	1,477	581

The deferred tax expected to reverse in 2021 is £1,477,368.

19. Other provisions

	At 1 January 2020 £000	Adjustments £000	Utilised £000	Additional provision £000	At 31 December 2020 £000
Long service awards	172	-	(175)	212	209
Warranty and returns provision	2,163	-	(1,342)	3,045	3,866
Termination benefits	802	-	(940)	303	165
Share-based compensation	(460)	677	(93)	186	310
Property related provision	2,391	-	(1,051)	1,150	2,490
Environmental provision	3,407	-	(1,795)	4,707	6,319
Onerous provision	52	-	(137)	85	-
Other provisions	763	-	(77)	164	850
	9,290	677	(5,610)	9,852	14,209

The provision for long service awards is based on the anticipated service lives of existing employees. The provision will be utilised when employees satisfy the long service award criteria.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

19. Other provisions (continued)

The warranty and returns provision relates to the anticipated cost of product returns and to replacements or free of charge service costs associated with product guarantees. The provision is utilised as the warranty or right-of-return periods for individual products expire, usually no later than 5 years after purchase.

The majority of the provision for termination benefits relates to the redundancy costs of our Hamilton factory which are expected to be settled within one year.

The share-based compensation provision represents the cost of share-based payment awards recharged by the group to the company as per the company's accounting policy and will be utilised when the awards are settled.

The property related provision relates to dismantle obligations at our Hamilton factory site (demolition of the existing building and structures at the property, including the removal of any asbestos) and decommissioning regarding our office space in Guildford. The part of provision related to our Hamilton factory we expect to be utilised by the first half of 2022.

Environmental provisions relate to remediation works required to remove environmental contamination at our closed Hamilton factory site. The provision is utilised as the decontamination work progresses. This work is expected to be complete by the first half of 2022.

The onerous contracts provision related to contracted services for our factory which closed in 2019.

The other provisions relate to the anticipated cost of settling two ongoing disputes with trade partners which are expected to settle within one year.

20. Called up share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
401,000 (2019 401,000) ordinary shares of £1 each	401	401

21. Share premium account

The share premium account records the amount above the nominal value receivable for shares issued, less transaction costs.

22. Pensions

Contributions charged to the Statement of Comprehensive Income for the year ended 31 December 2020 in respect of amounts paid to the defined contribution pension scheme amounted to £1,710,668.

Signify Commercial UK Limited

Notes to the financial statements (continued) for the year ended 31 December 2020

23. Operating leases

At 31 December 2020, the company had future minimum lease payments under non-cancellable operating leases as follows:

	2020 £000	2019 £000
Not later than one year	489	482
Later than one year and not later than five years	1,168	1,771
	<u>1,657</u>	<u>2,253</u>

24. Immediate parent undertaking and ultimate parent undertaking

The company is a wholly owned subsidiary undertaking of Signify Holding B.V., a company incorporated in the Netherlands.

The company's ultimate parent undertaking and the smallest and largest company to consolidate these financial statements is Signify N.V., which is incorporated in the Netherlands. Copies of these group financial statements are publicly available at www.signify.com.

25. Subsequent events

On 1 January 2021, the Brexit transition period ended. The Signify supply chain has gone live according to the new trading deal between EU and UK. Tariffs have been kept at the same level as before the trading deal, with new customs declarations procedures implemented.

In January 2021, Signify communicated a further plan that aims to enhance its competitiveness by optimizing the cost base, making the central organization leaner and improving the performance culture. These changes are enabled by a revised organizational structure and will lead to a reduction of approximately 600 positions globally (representing 2% of total Signify workforce). The total impact will be on the workforce in United Kingdom is currently under review.

In March 2020, the acquisition of Cooper Lighting Solutions was completed by Signify N.V., the company's ultimate parent. Part of the Cooper Lighting Solutions business in UK will be integrated into the company per January 2022. The total impact is currently under review.