

The Philips logo, consisting of the word "PHILIPS" in a bold, blue, sans-serif font, is positioned in the upper left corner of the page. It is set against a white background that is part of a larger graphic element with a blue gradient at the bottom.

Policy

Our approach to tax

December 2020

1. Philips' approach to tax

As a purpose-driven company, we take a fully integrated approach to doing business responsibly and sustainably. In the Social responsibility domain, we consider our tax payments as a contribution to the communities in which we operate and an integral part of our social value creation.

Tax is central to our commitment to create superior, long-term value for our multiple stakeholders. We acknowledge that the success of our business is also dependent on external factors such as public infrastructure, access to skilled labor and public administration. Philips therefore has a responsibility to contribute, through our tax payments, to government revenues in the countries in which we operate, thereby helping to drive economic and social prosperity.

Given the importance of tax collection to the macro-economic stability of communities, we consider tax in the context of the broader society, inspired by our stakeholder dialogues, global initiatives of the OECD (Organization for Economic Cooperation and Development) and United Nations, human rights, international (tax) laws and regulations. We aim to live up to the highest standards of governance. We will, therefore, also ensure transparency regarding our tax contributions for all countries in which we operate.

Philips' approach to tax is an integral part of the Philips General Business Principles (GBP), which reflect our commitment to always act with integrity towards our employees, customers, business partners and shareholders, as well as the wider community in which we operate (<https://www.philips.com/gbp>). Employees are urged to report suspected violations of our GBP, including our tax principles.

The GBP are actively promoted throughout the Tax Function, and its staff regularly completes the relevant training programs, receiving practical guidance on how to apply and uphold the GBP in their daily work.

Under the ultimate responsibility of the Board of Management, the Chief Financial Officer annually reviews, evaluates, approves and where necessary adjusts Philips' approach to tax.

2. Philips' tax principles

We act as a responsible taxpayer, ensuring compliance with local and international tax laws and regulations. We act in accordance with the spirit and letter of tax laws and regulations, both in our general approach to tax and in executing our tax strategy of using tax assets and applying tax incentives. We are guided by global initiatives promoting tax transparency and responsible tax management.

Business operations drive the design of our business models, while the Tax Function advises and supports implementation. Philips reports taxable income in the countries in which it creates value, in accordance with internationally accepted standards. Our transfer pricing policies are aimed at appropriate, arm's-length remuneration for activities among Philips-related parties. These policies are applied across all markets in which we operate, with the remuneration received corresponding to the local value creation.

We do not control legal entities in countries that do not share tax information under Tax Information Exchange Agreements, and do not control legal entities without commercial and/or economic activities solely for the purpose of tax avoidance.

We seek to build open and constructive relationships with tax authorities and participate in co-operative compliance programs, e.g. in the Netherlands.

We acknowledge the importance of transparency in respect of our tax contributions. Therefore, we make certain voluntary disclosures, in addition to the international and local public disclosure and reporting requirements we already comply with (such as International Financial Reporting Standards (IFRS) and the EU Directive on cross-border tax arrangements, DAC6).

3. Tax governance, control, and risk management

Under the responsibility of the Chief Financial Officer, a globally organized and experienced Group Tax Function is in place. It advises management and the businesses on the tax implications of decisions, performs appropriate tax planning to support business goals and ensures compliance with all tax laws. Country tax experts and tax business partners carry out these activities, supported by globally organized experts in areas such as transfer pricing and indirect tax. A globally organized team of tax accountants is responsible for tax accounting and reporting at Group level. The Tax Function is set up in such a way that it interacts with the key stakeholders in the businesses, markets and functions.

Philips has a Tax Control Framework in place. The execution of monitoring controls on a quarterly basis creates awareness and provides assurance of adherence to up-to-date tax policies. The Tax Control Framework is part of the Philips Business Control Framework, which sets the standard for Internal Control over Financial Reporting at Philips. The Audit Committee of the Supervisory Board regularly review controls and key tax-related matters, including this report as part of the Annual Report process. Furthermore, the company's external auditor provides assurance on our financials, including our tax positions, and taxes paid. We refer to the independent auditor's reports of our external auditor on the Annual Report 2020 and this Country Activity and Tax Report 2020, respectively.

Philips' approach to risk management includes tax risks, as they could have a significant adverse financial impact. Uncertainty is inherent to tax positions, and discussions on the interpretation of tax laws are inevitable. In line with the open and constructive relationships that Philips wants to build and maintain with tax authorities, we seek upfront certainty on interpretations of regulations whenever deemed relevant and tax authorities are willing to provide clarification. For a further explanation of Philips' approach to risk management and the tax risks to which Philips is exposed, please refer to the Risk Management chapter of our Annual Report.

We strive for full and timely tax compliance. To minimize any tax compliance risk, a quarterly review process is in place to secure timely and correct tax filings and tax payments, supported by compliance KPIs for the respective departments. In the execution of tax compliance, third-party tax service providers are often involved under the supervision of the Tax Function.

We continually seek to invest in technologies to improve data management, and thus the overall quality of direct and indirect tax compliance, control and reporting. We strongly believe in the benefits technology can offer to enable earlier access to tax-relevant data, particularly as the legal and regulatory environment is rapidly evolving and tax authorities are increasingly embracing digitalization. Over the past years, the Tax Function has evolved from being a manually oriented function to being a more data-driven, digitally enabled one.

When we plan new business models, processes are in place to review these from a tax perspective before implementation can start. Equally, in the event of acquisitions, a tax due diligence is always part of the process, and the input of the Tax Function is taken into account before a decision to acquire is taken. Acquisitions are immediately followed by implementation of the tax due diligence recommendations, which can be far-reaching. In the case of divestments, a routine process is applied, covering and connecting all functions, starting from carve-out of the business to delivering a fully independent operating business. Tax is typically involved in most workstreams, but in particular in the legal and finance-related workstreams.

4. Stakeholder engagement

We seek an open dialogue with our stakeholders, including relevant tax authorities, our shareholders, customers, business partners, employees, governments, regulators, non-governmental organizations and the communities in which we operate. Philips shares its views on tax developments through interest organizations such as employers' federations. We actively participate in the public debate around taxation, for example in the media. Furthermore, regular discussions are held with investors on the topic of tax in relation to sustainability.

Across all our activities, we derive significant value from the diverse stakeholders we engage with, listen to and learn from. We are seeking to intensify our stakeholder dialogues in order to align our approach to tax with our stakeholders' expectations on a continuous basis.

5. Tax transparency

In addition to our compliance with disclosure and reporting requirements such as the mandatory disclosure of country-by-country reporting to the Dutch tax authorities, we voluntarily make certain additional disclosures, such as this Country Activity and Tax Report. Philips furthermore supports and participates in transparency initiatives such as the Dow Jones Sustainability Index (DJSI) and the Tax Transparency Benchmark of the Dutch Association of Investors for Sustainable Development (VBDO).

