

Remuneration Policy

Introduction

Please find below the Remuneration Policy applicable to members of the Board of Management, as amended at the Annual General Meeting of Shareholders held on May 11, 2017.

The remuneration policy in general

The objectives of the Remuneration Policy for members of the Board of Management are in line with that for Philips Executives throughout the Philips group: to focus them on improving the performance of the company and enhancing the value of the Philips group, to motivate and retain them, and to be able to attract other highly qualified executives to enter into Philips' service, when required.

In determining the Remuneration Policy, the Remuneration Committee ensures that a competitive remuneration package for Board-level executive talent is maintained and benchmarked. The peer group companies selected for remuneration benchmarking purposes are either business competitors, with an emphasis on companies in the healthcare, technology related or consumer products area, or companies we compete with for executive talent. These consist of predominantly Dutch and other European companies, plus a minority number (up to 25%) of US based global companies, of comparable size, complexity and international scope.

Total direct remuneration and each main component, such as base salary, Annual Incentive target and Long-Term Incentive target is aimed at or close to, the median of the peer group. To establish this benchmark, data research is carried out each year on the peer companies' remuneration practices.

Deviations from this Remuneration Policy in extraordinary circumstances, when deemed necessary in the interests of the company, will be disclosed in the annual report of the company or, in case of an appointment, in good time prior to the appointment of the individual.

In order to link individual remuneration to the company's performance, the remuneration package includes a significant variable part in the form of an annual cash bonus incentive and a long-term incentive in the form of performance shares.

Features of the remuneration for members of the Board of Management

Base salary

Base salary levels and any adjustments made by the Supervisory Board are based on factors including the benchmark peer group data and performance and experience of the individual member. The annual review date for the base salary is typically April 1, and the individual salary levels are shown in the annual report of the company.

Annual Incentive (bonus)

Each year, a variable Annual Incentive can be earned based on the achievement of specific targets as determined by the Supervisory Board. These targets are set at challenging levels and are partly linked to the results of the company (80% weighting) and partly to the contribution of the individual member or team (20% weighting). The Annual Incentive targets will be determined annually at the beginning of the year by the Remuneration Committee on behalf of the Supervisory Board which will consist of: 1) two to four key financial indicators of the company, selected from the following list: profit/margin, revenue/growth, cash flow, shareholder/capital return measures, such as ROA, ROE, ROIC and economic/market value added measures; and 2) individual and/or team targets based on area of responsibility. In addition, the Remuneration Committee will also consider including non-financial targets, as appropriate, that are linked to strategic objectives, such as sustainability, compliance, etc.

The Annual Incentive pay-out in any year relates to the achievements of the preceding financial year versus agreed targets. Metrics will be disclosed ex-ante in the annual report and there will be no retroactive changes to the selection of metrics used in any given year once approved by the Supervisory Board and disclosed.

The on-target Annual Incentive percentage is set at 80% of the base salary (no change) for the President/CEO and 60% of the base salary (no change) for other members of the Board of Management. As of 2018, the Remuneration Committee has the discretion to increase the on-target levels to 100% and 80%, respectively, based on its assessment of competitive market practices. The maximum Annual Incentive achievable is 2 times the on-target levels.

Long-Term Incentive Plan

Members of the Board of Management will be eligible for grants under the Long-Term Incentive Plan applicable from time to time as approved by the General Meeting of Shareholders. The annual award size is set in accordance with the Remuneration Policy by reference to a multiple of base salary. For the President/CEO the annual award size is set at 200% of base salary. For the other members of the Board of Management the annual award size is set at 150% of base salary.¹ This is considered to be broadly a mid-market level when benchmarked against predominantly Dutch and other European companies plus a minority (up to 25%) of US global companies of comparable size, complexity and international scope.

The actual number of performance shares to be awarded is determined by reference to the average closing price of the Royal Philips share on the day of publication of the quarterly results and the four subsequent trading days.

¹ For members of the Board of Management from the United States of America, the size of the award can be doubled.

Mandatory share ownership

The guideline for members of the Board of Management to hold a certain number of shares in the company is 400% of base salary (increase from 300%) for the President/CEO, and 300% of base salary (increase from 200%) for the other members of the Board of Management. The guideline is to retain all after-tax shares and will not require own purchases. The shares granted under the Long-Term Incentive Plan shall be retained for a period of at least 5 years or until at least the end of their contract period if this period is shorter.

Pensions

Due to legislative changes in the Netherlands, effective January 1, 2015, a collective defined benefit pension arrangement applies to all members of the Board of Management. As of this date the following pension arrangement is in place:

- Flex Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of 26.2% up to the maximum pensionable salary of EUR 101,519 (effective January 1, 2016, and subject to annual review by the Dutch Department of Finance). The Flex Plan has a target retirement age of 67 and a target accrual rate of 1.85%;
- A gross Pension Allowance equal to 25% of the base compensation exceeding EUR 101,509;
- A temporary gross Transition Allowance, for a maximum period of 8 years (first 5 years in full; year 6: 75%; year 7: 50%, year 8: 25%) for members of the Board who were participants of the former Executive Pension Plan. The level of the allowance is based on the age and salary of the Board member on December 31, 2014.

The pensions of members of the Board of Management are funded through the Stichting Philips Pensioenfond (the 'Philips Pension Fund') of the Netherlands. The conditions contained in the funding agreement between Royal Philips and the Philips Pension Fund, as well as the by-laws and the regulations of the Philips Pension Fund apply.

Members of the Board of Management have the opportunity to make voluntary after tax contributions into a DC scheme provided through ABN AMRO Pensioenen. Dependents cover for income above EUR 101,509 is provided on an insured basis regardless whether any voluntary contributions are made. Philips covers the cost of this insurance cover.

Additional arrangements

In addition to the main conditions of the service contracts, a number of additional arrangements apply to members of the Board of Management. These additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance and company car arrangements are broadly in line with those for Philips Executives in the Netherlands. In the event of disablement, members of the Board of Management are entitled to benefits in line with those for other Philips Executives in the Netherlands. They also benefit from coverage under the company's Directors and Officers (D&O) policies. The company's policy forbids personal loans to members of the Board of Management.

Services agreements

The members of the Board of Management are engaged by means of a services agreement (*overeenkomst van opdracht*), as Dutch legislation prohibits a member of the Board of Management to be employed by means of a contract of employment.

The term of the services agreement of the members of the Board of Management is set at four years and, in case of termination by the company, severance payment is limited to a maximum of one year's base compensation.

In case of the appointment or re-appointment of a member of the Board of Management, the main elements of the services agreement shall be made public no later than at the time of issuance of the notice convening the General Meeting of Shareholders in which a proposal for (re-)appointment of that member of the Board of Management has been placed on the agenda.

Claw-back and adjustments

The so-called claw-back clause of article 2:135 sub 8 of the Dutch Civil Code is applicable to Annual Incentive payments and Long-Term Incentive grants to all members of the Board of Management. For grants as of 2013, the claw-back clause has been extended to include cases of a serious violation of the Philips General Business Principles or applicable law. The Supervisory Board also has the authority to adjust the value of these variable remuneration components in the event of an unfair result as provided for in article 2:135 sub 6 of the Dutch Civil Code, and to include adjustments for changes in accounting principles during the performance period and other adjustments to account for events that were not planned when targets were set or were outside management's control.

