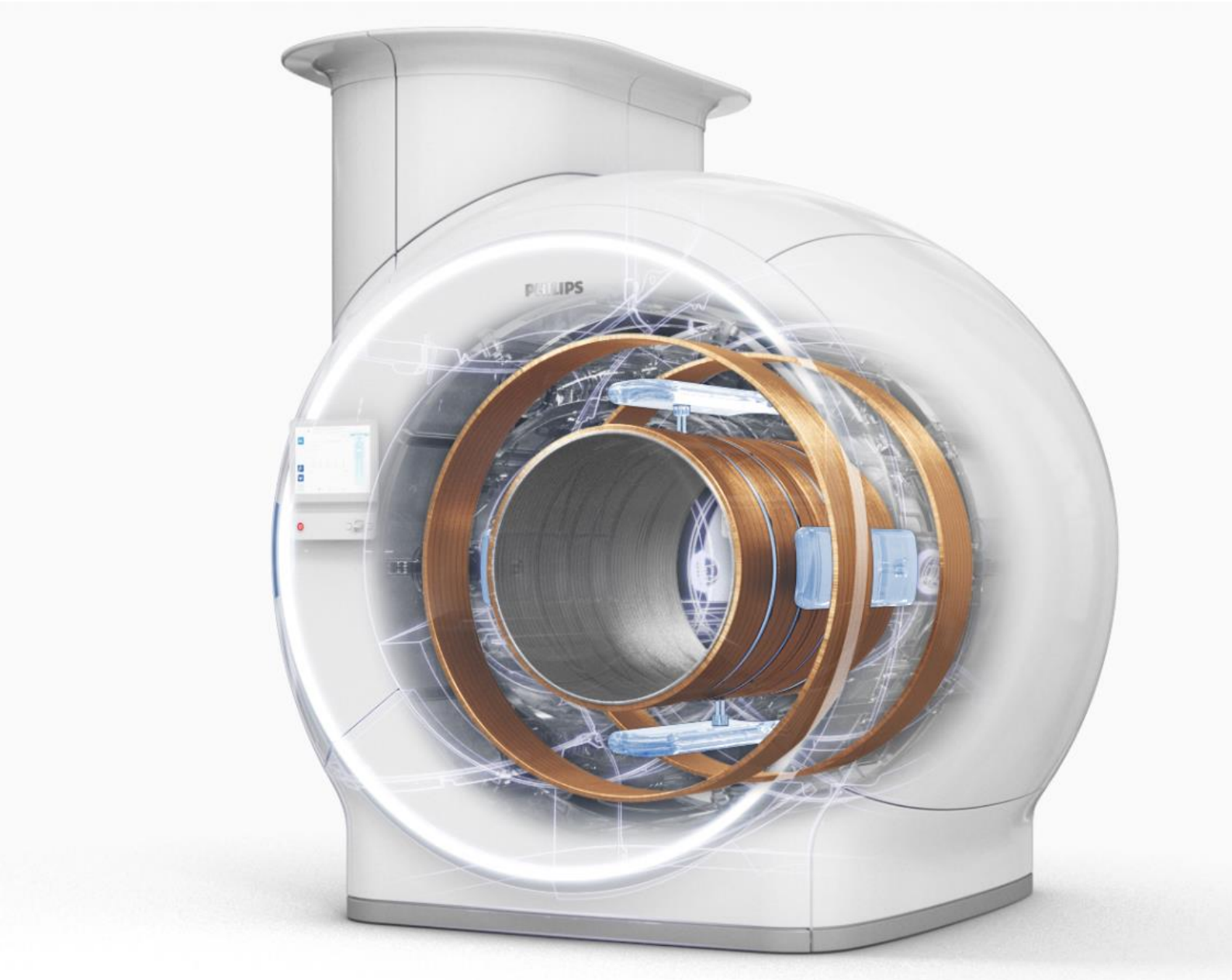
PHILIPS

Green and Sustainability Innovation Bond Framework

24 April 2019



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1. Introduction

Koninklijke Philips N.V. (hereafter: "the company" or "Philips") launches a dual Green and Sustainability Innovation Bond program to finance its sustainability activities. The Bonds under the program follow the International Capital Market Association (ICMA) Green Bond Principles 2018 (GBP)[1], Social Bond Principles 2018 (SBP)[2] and the ICMA Sustainability Bond Guidelines 2018 (SBG)[3], and have been verified by Sustainalytics.

Philips can issue two types of Bonds under this program:

I. Green Innovation Bonds
II. Sustainability Innovation Bonds

Philips can issue Bonds under the combined Green and Sustainability Innovation Bond Framework and will label the Bonds as either "Green Innovation Bonds" or "Sustainability Innovation Bonds" accordingly.

2. About Philips

2.1. Company overview

Philips (NYSE: PHG, AEX: PHIA) is a leading health technology company focused on improving people's health and enabling better outcomes across the health continuum from healthy living and prevention, to diagnosis, treatment and home care. Philips leverages advanced technology and deep clinical and consumer insights to deliver integrated solutions. Headquartered in the Netherlands, the company is a leader in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in consumer health and home care. Philips generated 2018 sales of EUR 18.1 billion and employs approximately 77,000 employees with sales and services in more than 100 countries.

2.2. Sustainability strategy

Led by its vision of making the world healthier and more sustainable through innovation, Philips is driving the digital health revolution to unlock the value of seamless care, helping people to look after their health at every stage of life – with the goal of improving the lives of 3 billion people a year by 2030.

This ambition demands an approach that addresses both the social and ecological dimensions, as reflected in Philips' commitment to the United Nations' Sustainable Development Goals (SDGs)[4] 3, 12 and 13 *('Good Health and Well-Being', 'Responsible Consumption and Production'* and *'Climate Action'* respectively):

- SDG 3: Ensure healthy lives and promote well-being for all at all ages
- SDG 12: Ensure sustainable consumption and production pattern
- SDG 13: Take urgent action to combat climate change and its impacts

[1] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp
[2] https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp
[3] https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/
[4] https://www.un.org/sustainabledevelopment/sustainable-development-goals/

With its focus on access to care, circular economy and climate action, the 'Healthy people, Sustainable planet' program[5], running from 2016-2020, is designed to help Philips deliver on these commitments. As a part of its sustainability strategy, Philips set company-wide sustainability targets for 2020 in several focus areas. As an engagement to advance circularity in the sector of healthcare and well-being, Philips' CEO co-chairs the WEF Platform for Accelerating the Circular Economy (PACE), a public-private collaboration to scale up the adoption and implementation of circular business models. To broaden its impact on healthcare and well-being even more, Philips has a Foundation that runs projects that improve the lives of the world's most disadvantaged peoples and communities.

Philips publishes its integrated Annual Report with the highest (reasonable) assurance level from its independent auditor on its financial, social and environmental performance. With that overall reasonable assurance level, Philips is a frontrunner in its industry.

3. Green and Sustainability Innovation Bond Framework

The Green and Sustainability Innovation Bond framework follows the four key pillars of the GBP 2018: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. The eligible projects conform to the categories defined in the GBP 2018 and SBG 2018.

3.1. Use of Proceeds

The proceeds of the Bonds under this framework will be used for the preparation, realization and operation of projects that satisfy one or more of the applicable criteria described in this section ("**Eligible Projects**") and that fit into Philips' strategy of producing environmentally-friendly personal health and healthcare innovations. By realizing projects in this focus area, Philips contributes to several SDGs.

The Use of Proceeds categories can be summarized as follows:

I. **Green Innovation Bonds:** Green Innovation Bonds focus on innovation in the environmental friendliness of Philips' products and production processes, focusing on Philips' six "**Green Focal Areas**": Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. The Use of Proceeds cover three different types of Green Innovation: Green Innovation in R&D, Green Innovation in the implementation of circular products and solutions, and Green Innovation in Philips' Sustainable Operations Programs.

II. **Sustainability Innovation Bonds:** Sustainability Innovation Bonds focus on socially-beneficial innovation in healthcare, focusing on the "**Quadruple Aim**"[6] of improved patient experience, better health outcomes, improved staff experience, and lower cost of care which together contribute to Financially Sustainable Care. While focussing on the social aspect these innovations are also designed with a strong focus on Philips' Green Focal Areas. Expenditures include expenditures related to Sustainable Innovation R&D which contribute to Financially Sustainable Care and expenditures related to improving access to care for underserved communities.

[5] Philips, "Healthy people, sustainable planet", (2016), at: https://www.philips.com/a-w/about/sustainability/our-approach/ambition-2020.html

[6] https://www.philips.com/a-w/about/company/our-strategy/our-strategic-focus.html

I. Green Innovation Bonds

A. Expenditures related to Green Innovation in Research and Development (R&D)

GBP category: Eco-efficient and/or circular economy adapted products, production technologies and processes

Green Innovation includes all R&D activities directly contributing to the development of green products and solutions. Green Innovation implies a significant environmental improvement in one or more Green Focal Areas: Energy efficiency, Packaging, Hazardous substances, Weight, Circularity, and Lifetime reliability. The improved products and solutions either outperform reference products (which can be a competitor or predecessor product in the particular product family) by at least 10% in one or more Green Focal Areas, or outperform product-specific eco-requirements or have been awarded a recognized eco-performance label. Because of the different product portfolios, business segments have specified additional criteria for Green Products, including product specific minimum requirements where relevant. Through the development of green products and solutions, Philips contributes to SDG 12: '*Responsible Consumption and Production*'.

There are four reporting segments in which Philips distinguishes Green Innovation:

1) *Diagnosis & Treatment*
   Philips develops innovative diagnosis and treatment solutions that support precision diagnosis, treatment selection and effective, minimally invasive interventions and therapy, while respecting the boundaries of natural resources. Businesses in this segment include: diagnostic imaging, ultrasound, enterprise diagnostic informatics, and image-guided therapy. All Philips Green Focal Areas are taken into account in order to reduce environmental impact over the total lifecycle.

   Use of Proceeds examples: R&D expenditures related to energy efficiency and efficient use of natural resources of large imaging systems such as MRI. R&D expenditures related to BlueSeal magnet technology in MRI systems, designed to reduce lengthy and costly disruptions in MRI practice, and help healthcare facilities transition to more productive and sustainable helium-free operations.[7]

2) *Connected Care*
   This reporting segment focuses on patient care solutions, advanced analytics and patients and workflow optimization and aims to unlock synergies from integrating and optimizing patient care pathways and leveraging provider-payer patient business models. Businesses in this segment include: monitoring & analytics, therapeutic care, connected care informatics and population health management. Philips' connected health IT solutions integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural resources. All of Philips' Green Focal Areas are taken into account, with a main focus on energy efficiency and reduced material use.

[7] https://www.philips.com/a-w/about/news/archive/standard/news/press/2018/20180911-philips-launches-ingenia-ambition-x-1-5-t-mr-with-industry-first-fully-sealed-magnet-for-more-productive-helium-free-operations.html

Use of Proceeds examples: R&D expenditures related to energy efficient patient monitors with reduced material use and e-health applications that can also reduce the travel-related carbon footprint of healthcare.

3) *Personal Health*

Businesses in this segment focus on healthy living and preventative care and include: mother & child care, oral care, grooming, beauty, and domestic appliances. Green Innovation spend in Philips' Personal Health businesses includes improving the energy efficiency of products, closing the materials loop and the voluntary phase-out of polyvinyl chloride (PVC), brominated flame retardants (BFR), Bisphenol A (BPA) and phthalates from, among others, food contact products.

Use of Proceeds examples: All R&D expenditures related to Philips' new Personal Health Green Products with rechargeable batteries (like toothbrushes, shavers, and grooming products) which outperform the world's most stringent energy efficiency norm set by the US Federal government, R&D expenditures related to the Performer Ultimate vacuum cleaner (36% recycled plastics), and R&D expenditures related to reusable sterilization boxes for soothers.

4) *Other*

The reporting segment "Other" comprises expenditures in Green innovations which are spread over innovative projects focussing on global challenges relating to water, air, energy, food and circular economy. These expenditures are aimed at producing game changing innovations that disrupt and cross boundaries in health technology to address opportunities for better clinical and economic outcomes, as well as supporting the associated transformation of Philips into a digital solutions company.

Use of Proceeds examples: R&D expenditures related to a new and innovative "Philips Unified Monitoring Architecture" containing standardized components for next-generation patient monitoring, which helps streamline workflows and improve monitoring across the health continuum. Impact assessments have shown significant improvements in the Green Focal Areas.

B. Expenditures related to the implementation of circular products and solutions

GBP category: Eco-efficient and/or circular economy adapted products, production technologies and processes

Philips set the goal that by 2020, 15% of its total revenues will come from circular propositions, and made a commitment in January 2018, at the World Economic Forum in Davos, to fully close the loop on all large medical systems equipment that becomes available to it by 2020. Philips will continue to expand these practices until Philips has covered all medical equipment by 2025. With its strong focus on circularity, Philips contributes to SDG 12: *'Responsible Consumption and Production'*. The Use of Proceeds in this segment include the expenditures that are needed for the circular treatment of equipment, through the following activities:

- Expenditures on refurbished, reconditioned or remanufactured products and systems with re-used components >30% by total weight of product or system.

- Expenditures on harvested components that have either been refurbished, reconditioned or remanufactured. The harvested component must contain >30% re-used parts or materials by total component weight. The component can be either a stand-alone component or part of a new product/system.
- Purchase of recycled plastic used for products with a recycled plastics content of >25% by total weight of eligible plastics.

Use of Proceeds examples: expenditures related to refurbishing solutions for MRI systems, interventional X-ray, computed tomography (CT) and surgical imaging systems.

C. Expenditures under Philips' Sustainable Operations Programs

GBP categories: Renewable energy, energy efficiency, pollution prevention and control, sustainable water and wastewater management and climate change adaptation

Philips' Sustainable Operations Programs concern the improvements and innovations in environmental performance of its operational processes and facilities. The focus is on several climate change contributors, water efficiency, and waste management. In this way Philips contributes to SDG 6 (*'Clean Water and Sanitation'*), 7 (*'Affordable and Clean Energy'*), 12 (*'Responsible Consumption and Production'*) and 13 (*'Climate Action'*). All investments that Philips makes are part of a long-term expenditure plan with quantitative targets in each focus area:

I. Carbon footprint reduction and energy efficiency improvements

- Targets:
  a. 100% carbon-neutral in its operations by 2020
  b. 100% electricity from renewable sources by 2020
- Eligible projects include expenditures related to producing energy from renewable sources (solar energy only) and energy efficiency measures in manufacturing and non-manufacturing facilities

Use of Proceeds example: Photovoltaic installations in Philips' factories, for example in Best and Drachten (Netherlands), Pune and Chennai (India) and various sites in China, improving building controls, LED lighting and building efficiency measures (incl. insulation) in accordance with Philips' organizational goals.

II. Water efficiency projects

- Target:
  a. 10% water usage reduction compared to the baseline year 2015 (978,500 m^3) by 2020
- Eligible projects include water-saving actions in various locations

Use of Proceeds examples: Site water saving campaigns, using surface water for cooling of processes instead of using purchased water, installing water efficient toilet flushing systems and water taps.

III. Waste

- Target:
  a. Recycle 90% of operational waste by 2020
  b. Zero waste to landfill by 2020
- Eligible projects include all expenditures that enable recycling and the reduction of waste

Use of Proceeds examples: On-site composting of organic waste, on-site bio digestion of organic waste (not with the aim of energy generation), investigating technical solutions to treat waste streams so they can be recycled instead of landfilled (e.g. waste from electrochemical processes), separating plastics into mono streams to enable recycling, the Excess Material Exchange project in Best to identify options for recycling of multiple waste streams.

IV. Expenditures related to the On-line Collaboration Infrastructure

- Target:
  a. 100% carbon-neutral in its operations by 2020
- This initiative underlines Philips' ambition to decrease CO_2 emissions by promoting on-line internal collaboration and reducing the necessity to fly for meetings

Use of Proceeds examples: improved video conferencing and on-line collaboration infrastructure with the aim of reducing CO_2 emissions from business travel by at least 10% by 2020.

II. Sustainability Innovation Bonds

A. Expenditures related to Sustainable Innovation R&D contributing to Financially Sustainable Care

GBP categories: Eco-efficient and/or circular economy adapted products, production technologies and processes

SBP categories: Access to essential services: healthcare

Financially Sustainable Care addresses innovative health technologies that transform the delivery of healthcare and drives innovations that contribute to value-based healthcare and the Quadruple Aim. The Quadruple Aim concept aims to improve the patient experience, enable better health outcomes, improve the staff experience and lower the cost of care. While focussing on social aspects these innovations are also designed with a strong focus on Philips' Green Focal Areas.

Financially Sustainable Care relates to the development of new generations of products and solutions that address the United Nations' Sustainable Development Goals 3 (*'Good Health and Well-Being'*) or 12 (*'Responsible Consumption and Production'*).

Expenditures on sustainable innovative R&D will be allocated in four segments in which Philips distinguishes R&D: Diagnosis & Treatment businesses, Connected Care businesses, Personal Health businesses and Others.

Use of Proceeds examples:

- The development of innovative diagnosis and treatment solutions that support precision diagnosis and effective, minimally invasive interventions and therapy
- Philips' connected health IT solutions which integrate, collect, combine and deliver quality data for actionable insights to help improve access to quality care, while respecting the boundaries of natural resources
- Expenditures related to the development of products and solutions that enable people to live a healthy life and promote well-being, for example addressing healthy food preparation or oral healthcare
- R&D expenditures related to OptimalTemp Technology innovation for garment care and contrast agent-free project to enhance MRI imaging applications in oncology by eliminating the use of external Gadolinium-based contrast agent

B. Expenditures regarding improving access to care for underserved communities

GBP categories: Eco-efficient and/or circular economy adapted products, production technologies and processes

SBP categories: Access to essential services: healthcare

As a global health technology leader, enabling access to healthcare is of paramount importance to Philips. Philips is committed to improve the lives of 400 million people in underserved healthcare communities by 2030. For that purpose, the company develops specific healthcare innovations and products that are useable in underserved communities.

Underserved communities are defined by four selected indicators, as provided by Sustainable Development Goal 3, which focuses on health and well-being[8]:

- Maternal mortality ratio is higher than 70 maternal deaths per 100,000 live births
- Neonatal mortality rate is higher than 12 neonatal deaths per 1,000 live births
- Under-five mortality rate is higher than 25 under-five deaths per 1,000 live births
- Premature mortality from non-communicable diseases (NCDs) is higher than 20% of total mortality

Expenditures related to projects, products and solutions with the aim of improving access to care for underserved communities are eligible. In addition, expenditures related to M&A activities aimed at improving access to care for underserved communities are also eligible under this category[9].

Use of Proceeds examples: Expenditures related to the Philips Lumify with Reacts connected platform, the Philips' Children's Respiration Monitor (pneumonia diagnosis in developing countries, pneumonia causes more than 900,000 deaths annually among children under the age of 5 [16% of child mortality worldwide] – of these 99% occur in developing countries), the wind-up fetal heart rate monitor (general monitoring and diagnosis of problems in the absence of electricity supplies or batteries) and Philips Community Life Centers.

[8] Source: World Health Statistics 2018: World Health Statistics 2018: Annex B; http://who.int/entity/gho/publications/world_health_statistics/2018/en/index.html ; Version published 30 May 2018

[9] M&A activities are only eligible if the target company has at least 90% of its activity complying with the eligibility criteria

3.2. Project Evaluation and Selection Process

Philips' Treasury and Sustainability departments jointly facilitate the process for project evaluation and selection. The Sustainability department together with Philips' Innovation sites monitors Philips' production and development of green and circular products and solutions. In addition, the Sustainability department and the Innovation sites keep track of Philips' expenditures on green and sustainable innovation. The Sustainability department and Innovation sites will identify projects under the Philips Sustainability Programs. Recommendations will then be made by the Sustainability department to the Treasury department as to which Eligible Projects should be allocated to the portfolios of green Eligible Projects and sustainable Eligible Projects (the "**Eligible Project Portfolio**") on an annual basis. The Eligible Project Portfolio may include projects funded up to 24 months before the respective Bond issuance.

3.3. Management of Proceeds

The proceeds will be allocated and managed by Philips' Treasury department on a portfolio basis in collaboration with the Sustainability department. Philips will monitor and track an amount equal to the net proceeds through its internal accounting system and will seek to allocate 100% of this amount to its Green Eligible Project Portfolio or Sustainable Eligible Project Portfolio, as applicable. Pending the full allocation to the applicable Eligible Project Portfolio, Philips will hold and / or invest the balance of net proceeds not yet allocated, at its own discretion, in its treasury liquidity portfolio. If a designated project in the applicable Eligible Project Portfolio ceases to be an Eligible Project in the applicable Eligible Project Portfolio, the proceeds will be re-allocated to different Eligible Projects in the applicable Eligible Project Portfolio, as soon as reasonably practicable.

3.4. Reporting

Reporting on the Use of Proceeds and impact evaluation will be available to investors within one year from the date of the Bond issuance and annually thereafter until the proceeds have been fully allocated. The annual Green and/or Sustainability Innovation Bond report with updates on the allocation of proceeds and an impact evaluation will be published on the company's website, along with a letter from an independent auditor and assertions by Philips' management verifying the report and verifying that the net proceeds of the Bond were allocated to Eligible Projects.

I. Green Innovation Bonds

Allocation reporting

The Treasury and Sustainability departments track the allocation of proceeds and reports on the percentage of Bond proceeds allocated. They also specify the percentage of proceeds allocated to the Use of Proceeds categories and the percentage of proceeds allocated to refinance existing projects versus the funding of new projects.

Table 1: Allocation of Bond proceeds to Eligible Projects

Bond issuance amount	Percentage of allocated proceeds	Percentage of unallocated proceeds
€…m	…%	…%

Table 2: Allocation of Bond proceeds to different Use of Proceeds categories

Expenditures related to Green Innovation in R&D	Expenditures related to the implementation of circular products and solutions	Expenditures under Philips' Sustainable Operations Programs
…%	…%	…%

Table 3: New projects vs. refinance of existing projects

New projects	Refinanced projects
…%	…%

Impact reporting

In order to give a comprehensive view on the impact of the investments, impact reporting varies for each Use of Proceeds category. Per Use of Proceeds category, Philips will provide relevant metrics (listed below) on a best-efforts basis. The impact reporting occurs on portfolio basis, but certain projects will be highlighted to provide examples.

A. Expenditures related to Green Innovation in R&D

- Number of green innovations developed
- Depending on the focal area of the developed products and solutions, examples for specific innovations of:
  - Estimated CO_2 avoided through energy efficiency
  - New material use avoided (in metric tonnes)
  - Reduction in hazardous substances emission (in kilos)

B. Expenditures related to the implementation of circular products and solutions

- Re-used components (in metric tonnes)
- Re-used and recycled products (in metric tonnes)
- Amount of recycled plastics purchased (in tonnes)

C. Expenditures under Philips' Sustainable Operations Programs

I. *Carbon footprint and energy efficiency:*
- Renewable energy financed by the Bond in Ktonnes CO_2 avoided
- Renewable energy as a percentage of total energy use
- CO_2 emissions avoided through energy efficiency measures in manufacturing facilities (in Ktonnes CO_2 equivalent)

II. *Water efficiency projects:*
- Water use avoided through water-saving actions (in m^3)
- Improvement on 2020 target (10% water reduction) realized by projects (as a percentage)

III. *Waste*
- Operational waste recycled through financed projects (in Ktonnes)
- Avoided waste to landfill financed by projects (in Ktonnes)

- Improvement on 2020 targets (recycling of 90% of operational waste and zero waste to landfill) by the end of 2020

IV. *Expenditures related to the On-line Collaboration Infrastructure*

- CO_2 emissions avoided through On-line Collaboration Infrastructure investments

II. Sustainability Innovation Bonds

Allocation reporting

The Treasury and Sustainability departments track the allocation of proceeds and reports on the percentage of Bond proceeds allocated. They also specify the percentage of proceeds allocated to the Use of Proceeds categories and the percentage of proceeds allocated to refinance existing projects versus the funding of new projects.

Table 1: Allocation of Bond proceeds to Eligible Projects

Bond issuance amount	Percentage of allocated proceeds	Percentage of unallocated proceeds
€…m	…%	…%

Table 2: Allocation of Bond proceeds to different Use of Proceeds categories

Expenditures related to Sustainable Innovation R&D enabling Financially Sustainable Care	Expenditures related to improving access to care for underserved communities
…%	…%

Table 3: New projects vs. refinance of existing projects

New projects	Refinanced projects
…%	…%

Impact reporting

In order to give a comprehensive view on the impact of the investments, impact reporting varies for each Use of Proceeds category. Per Use of Proceeds category, Philips will provide relevant metrics (as listed below) on a best-efforts basis. The impact reporting occurs on portfolio basis, but certain projects will be highlighted to provide examples.

A. Expenditures related to sustainable innovation R&D contributing to Financially Sustainable Care

- Sustainable products and solutions developed
- Number of lives improved through sustainable healthcare innovations
- Depending on the focal area of the developed products and solutions, examples for specific innovations of:
  - Estimated CO_2 avoided through energy efficiency
  - New material use avoided (in metric tonnes)
  - Reduction in hazardous substances emission (in kilos)
- Example case studies of products and solutions

B. Expenditures related to improving access to care for underserved communities

- Number of sustainable projects, products and solutions produced
- Number of lives improved in underserved healthcare communities
- Example case studies of projects, products and solutions

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