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2024 Remuneration Policy for the Board of Management

Please find below the 2024 Remuneration Policy for the Board of Management, that has been adopted by our shareholders at the 2024 Annual General Meeting of Shareholders. Please also refer to the explanatory note to the relevant agenda item (as included as an annex to this 2024 Remuneration Policy), describing the process we followed, how we engaged with our stakeholders and the main changes following from the proposal. Those explanations are incorporated by reference and constitute an integral part of the 2024 Remuneration Policy.

Objectives and principles

The objectives of the Remuneration Policy for members of the Board of Management are in line with those for Philips Executives throughout the Philips group: to focus them on pursuing our purpose to improve people's health and well-being through meaningful innovation, and on delivering on our strategy, to motivate and retain them to create superior, long-term stakeholder value.

Thus, the Remuneration Policy is designed to:

- Support the company's overall performance and our commitment to drive progressive value creation through a strategy of focused organic growth, scalable patient- and people-centric innovation, and focus on reliable execution;
- Help operationalize our purpose by adopting a fully integrated approach to doing business responsibly and sustainably, in partnership with our stakeholders;
- Enable us to attract, motivate and retain world-class talent, by:
  a) Linking a part of remuneration to achieving our strategic imperatives through the criteria and targets included in the Annual and Long-Term Incentives;
  b) Offering market competitive compensation compared to a peer group of business competitors and companies we compete with for executive talent; and
  c) Stimulating employee share ownership to create alignment with shareholder value and to encourage employees to act as stewards and ambassadors of the company;
- Uphold ethical behavior towards our employees, customers, patients, business partners and shareholders, as well as the wider community in which we operate; and
- Lead to fair and internally consistent pay levels by taking into account internal relativities.

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Compensation benchmarking and measuring business performance

As part of the Remuneration Policy, two separate peer groups are used: one to benchmark total compensation levels, the Quantum Peer Group, and one to assess Relative Total Shareholder Return performance against, the Performance Peer Group. The rationale for having these two separate groups is outlined below.

1. Quantum Peer Group for compensation benchmarking purposes

The Remuneration Policy aims to maintain and benchmark a competitive remuneration package for Board of Management-level executive talent while at the same time taking into account the specific remuneration landscape and societal context in which Philips operates. The Quantum Peer Group is used to benchmark total compensation levels, and consists of companies of comparable size, complexity and international scope that Philips competes with for executive talent. The remuneration levels are set at a relatively modest level, being the median of the Quantum Peer Group, compared to the global remuneration landscape and the level that would apply when benchmarked against the Performance Peer Group (see under 2).

The Quantum Peer Group companies selected for remuneration benchmarking purposes are either business competitors, with an emphasis on companies in similar sectors, notably in the healthcare, technology-related or consumer-products areas, or companies we compete with for executive talent. These consist of predominantly (75%) Dutch / European companies and up to 25% of US based global companies, of comparable size, complexity and international scope.

Data research is carried out each year on the remuneration practices within the Quantum Peer Group.

As per 2024, the Quantum Peer Group consists of the following companies:

European companies (14)		Dutch companies (4)	US companies (6)
Alcon	Lonza	Ahold Delhaize	Baxter
BAE Systems	Nokia	AkzoNobel	Becton Dickinson
Dräger	Reckitt Benckiser	ASML	Boston Scientific
Ericsson	Roche	Heineken	GE Healthcare
Fresenius Medical Care	Siemens Healthineers		Medtronic
Getinge	Smith & Nephew		Stryker
GSK	Thales		

If deemed appropriate, changes to the Quantum Peer Group may be made by the Supervisory Board, without approval from the General Meeting of Shareholders, up to three companies on an annual basis (for instance for reason of changes in business or competitive nature of the companies involved), or six companies in total. Any changes to the Quantum Peer Group and reason of change will be disclosed in the subsequent remuneration report.

2. Performance Peer Group for Relative Total Shareholder Return performance

The Remuneration Committee ensures that business performance is measured against the relevant business competitors. Peer companies are explicitly selected – taking into account a range of criteria – to reflect the business portfolio of Philips. As such, they represent our genuine business competitors in the health technology and other sectors we operate in and taking into account our global business presence. Contrary to the composition of the Quantum Peer Group (see above under 1.), non-European companies are not underrepresented in the Performance Peer Group. The Performance Peer Group composition is shown in the Relative Total Shareholder Return section.

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Remuneration structure

The remuneration offered to the members of the Board of Management consists of several elements, which are outlined in the table below. Additional information on the structure of various elements is presented in the subsequent sections.

Total direct compensation and each main component, such as Annual Base Compensation, the on-target Annual Incentive and Long-Term Incentive grant size, is aimed at or close to the median of the Quantum Peer Group.

Annual Base Compensation

Definition and purpose	Policy level
Fixed cash payments intended to attract and retain executives of the highest caliber and to reflect their experience and scope of responsibilities	Annual Base Compensation levels, as set by the Supervisory Board, are based on factors including the median of the quantum peer group benchmark data, performance and experience of the individual member and internal relativities.

Annual Incentive (AI)

Definition and purpose	Policy (maximum) level	
Variable cash incentive of which achievement is tied to specific financial and non-financial targets derived from the company's annual strategic plan	**President & CEO** On-target: **120%** Maximum: **240%** of Annual Base Compensation	**Other BoM members** On-target: **100%** Maximum: **200%** of Annual Base Compensation

Long-Term Incentive (LTI)

Definition and purpose	Policy level	
Variable equity incentive of achievement is tied to targets reflecting long-term stakeholder value creation and delivered in the form of performance shares	**President & CEO** Annual grant size: **200%** Maximum vesting: **400%** of Annual Base Compensation	**Other BoM members** Annual grant size: **150%** Maximum vesting: **300%** of Annual Base Compensation

Pension

Definition and purpose	Policy level
Participation in the Philips Flex ES pension plan in the Netherlands (applicable for all executives) combined with a fixed pension contribution intended to result into an appropriate level at retirement	1) Defined contribution plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 137,800; effective January 1, 2024, and subject to annual review by the Dutch Department of Finance) 2) Gross allowance of 25% of annual base compensation exceeding EUR 137,800.

Additional benefits

Definition	Policy level
Cash value (grossed up) of the benefits received, which are in line with other Philips executives in the Netherlands	Additional arrangements include expense and relocation allowances, medical insurance, accident insurance, Philips product arrangements and company car arrangements.

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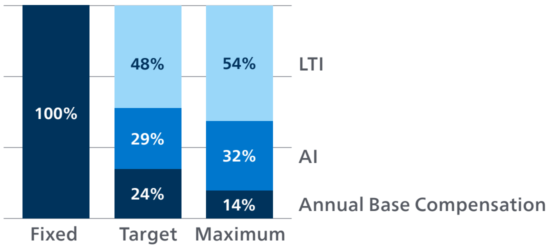
Mix of remuneration elements

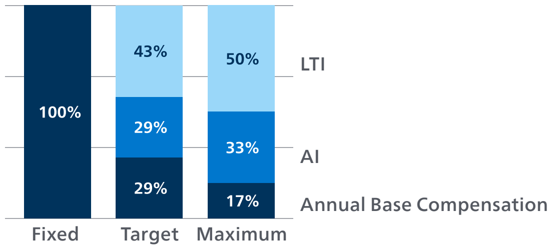
To support the policy's objectives, the remuneration policy includes a significant variable part in the form of an Annual Incentive (cash bonus) and Long-Term Incentive in the form of performance shares. As a result, a significant proportion of pay is 'at risk' through incentives.

The charts show the relative value of fixed versus variable compensation. At target opportunity, approximately 71-76% of compensation is variable. At maximum opportunity, approximately 83-86% of compensation is variable.

President & CEO



Other BoM members



Annual Base Compensation

Annual Base compensation levels, as set by the Supervisory Board, are based on factors including benchmark data (median of Quantum Peer Group), performance and experience of the individual member and internal relativities. The annual review date for the Annual Base Compensation is typically April 1, and the individual compensation levels are shown in the subsequent remuneration report.

Annual Incentive

Each year, a variable Annual Incentive (cash amount) can be earned based on the achievement of specific targets against criteria as determined by the Supervisory Board at the beginning of the year. For the President & CEO the maximum on-target Annual Incentive amounts to 120% of Annual Base Compensation, for other members of the board of management it amounts to 100% of Annual Base Compensation. The maximum opportunity is two times on-target opportunity. Targets are set at challenging levels and are linked to financial metrics (70% weighting) and non-financial metrics (30% weighting). The Annual Incentive pay-out on metrics in any year relates to the achievements of the preceding financial year versus agreed targets.

As set forth below, the Annual Incentive criteria consist of a financial, and a non-financial element.

Financial element (70% weighting):

At the start of each year, a financial performance metric – which is aligned with the strategic priorities for the year – will be selected for each of the three financial categories:

- profit/margin
- revenue/growth
- cash flow

Furthermore, the Supervisory Board has the option to introduce a shareholder/capital return metric (such as ROA, ROE, ROIC).

Selected performance metrics and their weighting will be disclosed ex-ante in the remuneration report and there will be no retroactive changes once approved by the Supervisory Board and disclosed.

For each of the selected performance metrics, the Supervisory Board sets challenging but realistic target levels. Targeted performance levels and actual achievement will be disclosed ex-post in the subsequent remuneration report. If adjusted metrics have been selected, the Supervisory Board will ensure that payout is aligned with company performance and stakeholder interest.

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The targets set for the financial performance metrics will be evaluated against the following performance incentive zone:

Annual Incentive targets	Below threshold	Threshold	Target	Maximum
Pay-out	0%	50%	100%	200%

Non-financial element (30% weighting):

At the start of each year, two to four non-financial performance categories will be selected for each of the members of the Board of Management whereby each selected performance category will receive an equal weighting:

- Customer
- Patient Safety & Quality
- Strategy and Execution
- ESG

For each selected performance category, one or more performance objectives are determined at the start of the year. The selected performance categories and objectives can differ per member of the Board of Management. To enhance transparency, both the selected performance categories as well as the selected performance objectives (within each category) and the measurement description will be disclosed ex-ante in the remuneration report.

For each performance objective, targeted performance levels (i.e., threshold, target and maximum) will be defined at the start of the performance period. As these performance levels contain detailed and company sensitive information, they will not be disclosed in the remuneration report. Instead, a qualitative description of the realized performance will be disclosed ex-post.

For each member of the Board of Management, the Supervisory Board will assess performance and grant a pay-out between 0% and 200% per selected category.

Long-Term Incentive Plan

Members of the Board of Management are eligible for share-based incentive grants under the Long-Term Incentive (LTI) Plan set forth below. The LTI Plan supports the company's longer-term strategy and goals, among others by making vesting levels subject to performance criteria that reflect the company's longer-term strategy and goals. The performance is measured over a three-year vesting period and an additional two-year holding period applies.

Type of plan

The LTI Plan allows for the award of 'performance shares' only (i.e., shares in Royal Philips granted conditionally upon achieving certain business performance targets), without the facility to grant options.

Annual LTI award size, grant dates and reference period

The annual value amount is set by reference to a multiple of Annual Base Compensation and is unchanged from the 2020 policy: for the President/CEO at 200% of Annual Base Compensation; for the other members of the Board of Management at 150% of Annual Base Compensation.

There are four dates of grant per year, which will be the days of publication of the quarterly results. The main grant will be once per year upon publication of the first quarterly results. Other dates of grant can be used in exceptional occasions such as operational or regulatory delays in typical granting schedules, or to facilitate hiring arrangements with incoming members of the Board of Management.

The actual number of performance shares to be awarded is determined by reference to the average closing price of the Royal Philips share measured over the last month of the quarter preceding the actual grant of performance shares (the day of publication of the relevant quarterly results).

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Vesting schedule and additional holding period

Performance shares are subject to cliff-vesting three years after the date of grant. Vesting levels depend upon the achievement of certain targets under the performance criteria set forth below, subject to thresholds and maximum levels as determined in the LTI Plan. During the vesting period, the value of dividends will be added (after the relevant payment date) to the performance shares in the form of shares that vest under the same conditions as the performance shares.

Members of the Board of Management are required to hold vested shares for an additional period of two years (or until the end of their contract period if that period is shorter). Reference is also made to the requirements described in the 'Mandatory share ownership' below.

Performance metrics

The vesting of the performance shares is subject to performance over a period of three years and based on two financial performance metrics and one non-financial performance metric:

- 40% weighting: Relative Total Shareholder Return (TSR)
- 40% weighting: Adjusted Earnings Per Share growth (EPS)
- 20% weighting: ESG performance

Relative Total Shareholder Return (40% weighting)

TSR as realized by Philips over a period of three years is compared to TSR realized by peers from the Performance Peer Group. The current composition of the Performance Peer Group is as follows:

US companies (10)	European companies (7)	Japanese companies (2)
Baxter	Alcon	Canon
Becton Dickinson	Elekta	Terumo
Boston Scientific	Fresenius Medical Care	
Danaher	Getinge	
GE Healthcare	Reckitt Benckiser	
Hologic	Siemens Healthineers	
Johnson & Johnson	Smith & Nephew	
Medtronic		
Resmed		
Stryker		

Changes to the Performance Peer Group may be made by the Supervisory Board without approval from the General Meeting of Shareholders in respect of up to three companies on an annual basis (for instance for reason of a delisting or merger) or six companies in total. Any changes to the Performance Peer Group will be disclosed in the subsequent remuneration report.

The rank achieved by Philips within the Performance Peer Group will determine the vesting level, as follows:

TSR Philips	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Vesting %	200	200	200	200	200	180	160	140	120	100	0	0	0	0	0	0	0	0	0	0

TSR scores are calculated based on a local currency approach and by taking a three-month averaging period prior to the start and end date of the three-year performance period.[1] The performance incentive vesting zone is outlined in the table above, which results in zero vesting

1 The reason for using local currency is that the TSR measurement aims to compare the return that companies in the Performance Peer Group deliver to their shareholders with the return that Philips is delivering to its shareholders. Using a common currency approach is considered to deviate too much from actual investment returns experienced by all shareholders from all companies in the Performance Peer Group. Next to that we strive for consistency over time by applying our TSR measurement methodology over longer periods of time.

for performance below the median and 200% vesting for performance levels above the 75th percentile. For a vesting level of 100% or higher, Philips will need to outperform the median of the Performance Peer Group.

Adjusted Earnings Per Share growth (40% weighting)

EPS growth is calculated by applying a point-to-point method comparing LTI Plan EPS as achieved at the beginning and end of the performance period (i.e., 3 years). EPS for LTI Plan purposes is based on the EPS as reported by Philips, subject to any adjustments required as explained below.

LTI Plan EPS is derived from reported EPS and adjusted for changes in accounting principles during the performance period. The Supervisory Board has discretion to include other adjustments, for example, to account for significant events that were not planned when targets were set or were outside management's control (e.g., impairments, restructuring activities, pension items, legal proceedings, M&A transactions and costs, currency fluctuations). The Supervisory Board will ensure that vesting remains aligned with company performance and stakeholder experience. Any adjustment made will be disclosed in the subsequent remuneration report.

To eliminate the impact of any share buyback, stock dividend etcetera, the number of shares to be used for the purpose of the LTI Plan EPS realization will be the number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period.

The following performance incentive zone applies for LTI Plan EPS:

Adjusted EPS growth Philips	Below threshold	Threshold	Target	Maximum
Vesting	0%	40%	100%	200%

The LTI Plan EPS targets will be set by the Supervisory Board annually. LTI Plan EPS targets concern sensitive information that may not be in the interest of Philips or its shareholders to be disclosed ex-ante, however, these will be disclosed retrospectively at the end of the performance period. LTI Plan EPS targets and the achieved performance will be published in the first subsequent remuneration report after the relevant performance period.

ESG Performance (20% weighting)

Philips believes that ESG performance will improve the company's performance as a whole and, therefore, that it should be explicitly linked to (long-term) remuneration. Annually, we will select four auditable objectives at the start of each performance year in line with our long-term strategic priorities. Selected objectives including their measurement description will be disclosed ex-ante in the remuneration report, whereby each objective will have a 5% weighting.

For each of the four objectives challenging targeted performance levels (i.e., threshold, target and maximum) are set, based on a point-to-point method comparing levels as achieved at the beginning and end of the performance period (i.e., 3 years). The vesting is determined based on the following scheme:

No. of objectives achieved within or above target zone	Vesting %
0	0
1	0
2	0 - 100
3	100 - 150
4	150 - 200

The Supervisory Board will assess the overall performance on all targets to decide on the final vesting. When performance is on average lower/higher within the target range per ESG objective, the vesting will be lower/higher positioned in the vesting range. For example, if two objectives are realized below target zone and two objectives are realized within target zone however both between threshold and target, then the vesting % will be at maximum 50%.

The Supervisory Board may apply discretion to include adjustments in its assessment, for example to account for events that were not planned when targets were set or were outside management's control (e.g., M&A, portfolio changes). The Supervisory Board will ensure that vesting remains aligned with company performance and stakeholder experience. Any adjustment made will be disclosed in the subsequent remuneration report.

Change of control

In the event of a change of control of the company, the Supervisory Board may decide to accelerate the vesting of any unvested LTI awards, subject to the achievement of the performance conditions to the date of completion of the change of control in accordance with the performance incentive zone in place, taking into account the principles of reasonableness and fairness and, unless the Supervisory Board determines otherwise, the shares which vest will in principle be reduced on a time pro-rated basis.

Mandatory share ownership

To ensure alignment between the interests of the members of the Board of the Management and the company's long-term value creation, the members of the Board of Management must hold a certain number of shares in the company, which corresponds with 400% of Annual Base Compensation for the President/CEO, and 300% of Annual Base Compensation for the other members of the Board of Management. Until such ownership level is reached, the members of the Board of Management are required to retain all after-tax performance shares that have vested (at vesting, they are allowed to partially 'sell to cover' tax payments due over retrieved variable income), but they are not required to make additional share purchases.

Pension

The pension arrangement applicable to the members of the Board of Management consists of the following elements and is aligned with the pension arrangement as applicable for Philips employees in the Netherlands:

Pension plan based on collective defined contribution and average pay type of accrual

Members of the Board of Management participate in the Philips Flex Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of 30.3% of the pensionable salary (including an own contribution of 2%), being the maximum fiscally allowed salary of EUR 137,800 (effective January 1, 2024, and subject to annual review by the Dutch Department of Finance) minus the applicable offset (franchise). The Flex Plan has a target retirement age of 68 and a target accrual rate of 1.85%.

The Philips Flex Pension Plan in the Netherlands is funded through the Stichting Philips Pensioenfonds (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.

Gross allowance for Annual Base Compensation exceeding the fiscal salary limit

Members of the Board of Management receive a gross pension allowance equal to 25% of the Base Compensation exceeding the abovementioned EUR 137,800.

Members of the Board of Management have the opportunity to make voluntary after-tax contributions (from the pension allowances received) into a defined contribution scheme provided through Centraal Beheer PPI. Dependents cover for income above the abovementioned EUR 137,800 is provided on an insured basis regardless whether any voluntary contributions are made. In line with other executives in the Netherlands, Philips covers the cost of this insurance cover.

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Services agreements

Pursuant to Dutch law, the members of the Board of Management are engaged by means of a services agreement ('*overeenkomst van opdracht*'). The term of the services agreements is aligned with the term for which the relevant member has been appointed by the General Meeting of Shareholders.

The services agreements provide that early termination of the contract by either party, other than termination for urgent cause ('*dringende reden*'), is subject to a six months' notice period. Such a notice period does not apply if a Board of Management member is not re-appointed upon expiration of the services agreement. The services agreements include, in accordance with the Dutch Corporate Governance Code, a severance payment which is limited to a maximum of one year's Annual Base Compensation. Furthermore, new service agreements (as of January 1, 2024) will include a clause that members of the Board of Management are not eligible for an Annual Incentive pay-out over a period of garden leave during the notice period (if applicable). This is aligned with the practice as operated for the Dutch executive population.

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.

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, Philips product arrangements and company car arrangements are broadly in line with those for the Dutch executive population. In the event of disablement, members of the Board of Management are entitled to benefits, also in in line with the entitlements of other Philips Executives in the Netherlands. The members of the Board of Management also benefit from coverage under the company's Directors and Officers (D&O) liability insurance.

The company does not grant personal loans to members of the Board of Management.

Claw-back

Annual Incentives and Long-Term Incentives paid to any member of the Board of Management are subject to claw-back provisions, which allow the Supervisory Board, acting in its sole discretion, to recoup some or all of the relevant payments if:

a. The relevant incentive has been paid, granted, vested and/or delivered based on incorrect financial or other data (in accordance with article 2:135 sub 8 of the Dutch Civil Code);

b. The assessment whether an applicable performance condition and/or target was satisfied, was based on an error, inaccurate or misleading information or assumptions;

c. There are circumstances which would allow the company to terminate the services contract with such member of the Board of Management for urgent cause ('dringende reden');

d. Such member of the Board of Management was involved in, or directly or indirectly responsible for a violation of the Philips General Business Principles or applicable law;

e. The company or the business in which such member of the Board of Management works/worked or was responsible for, suffered a material failure of risk management; or

f. Something which occurred in the period relevant to the incentive has a sufficiently significant impact on the reputation of the company or its group members to justify the operation of a recoupment claim.

The Supervisory Board shall exercise its discretion to claw back any Annual Incentive or Long-Term Incentives payment or any other incentive-based compensation in accordance with the 'Policy Regarding the Recovery of Erroneously Awarded Incentive-Based Compensation' of Royal Philips, providing for the mandatory claw-back of excess incentive-based remuneration in the event of a mandatory accounting restatement.

Additionally, the Supervisory Board has the authority to adjust (downward) the value of Annual Incentives and Long-Term Incentives and any other 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.

Hiring policy

In case of appointments to the Board of Management, both in case of internal appointments or an external hire, the Supervisory Board will determine the remuneration of the individual in accordance with this Remuneration Policy. In addition, the Supervisory Board may consider applying some of the following items:

- Depending on the date of appointment as member of the Board of Management or date of hire, the Supervisory Board may on a case-by-case basis set pro rata Annual Incentive targets and amounts and/or a pro rata grant size of the Long-Term Incentive.
- In case of internal promotions, commitments made prior to the appointment as member of the Board of Management may continue to be honored as new remuneration arrangements apply.
- In case of external hires, cash or share-based buy-out awards may be awarded, (partially) covering compensation that the incoming member of the Board of Management forfeits by leaving previous employers.
- This shall be disclosed as part of the proposal for appointment of that member of the Board of Management.

Deviation

As provided under Dutch statutory law, the Supervisory Board may temporarily and under exceptional circumstances deviate from this remuneration policy, ultimately until a new Remuneration Policy is adopted by the General Meeting of Shareholders. Exceptional circumstances cover only situations in which the deviation from the Remuneration Policy is necessary to serve the long-term interests and sustainability of the company as a whole or to assure its viability. This may concern all aspects of the policy. Deviations shall be aligned with the main objectives and principles of the Remuneration Policy and any such deviations shall be made by the Supervisory Board following a proposal from the Remuneration Committee. Any deviations shall be disclosed in the subsequent remuneration report.

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Annex

Explanatory note to item 5 on the agenda for the Annual General Meeting of Shareholders held on May 7, 2024.

Remuneration of the Board of Management and the Supervisory Board

Under items 5.a and 5.b, it is proposed to adopt an amended 2024 Remuneration Policy for the Board of Management and an amended 2024 Remuneration Policy for the Supervisory Board, respectively. This explanatory note describes the process we followed, how we engaged with our stakeholders and the main changes following from the proposals. These explanations are incorporated by reference into the proposed 2024 Remuneration Policies, which have been published on our website, and constitute an integral part of the proposals.

Subject to their adoption by the General Meeting of Shareholders, the 2024 Remuneration Policies will have retrospective effect for the full year 2024 and will replace the 2020 Remuneration Policy and the 2020 Long-Term Incentive Plan for the Board of Management (which have been combined in the 2024 proposal), and the 2020 Remuneration Policy for the Supervisory Board. The proposals are made in compliance with the Dutch statutory requirement that a company's remuneration policy be adopted by the company's General Meeting of Shareholders at least once every four years.

The proposed 2024 Remuneration Policies have been prepared by the Remuneration Committee. Starting October 2023, the Chairman of the Remuneration Committee engaged with stakeholders through a dedicated remuneration roadshow and other interactions to solicit their feedback on, and support for the proposals. The discussions were held with several of our larger shareholders (in aggregate representing approximately 55% of the issued share capital) and with three of the most representative institutional advisory organizations.

The company also discussed the proposed 2024 Remuneration Policies with employees and employee representative bodies, whereby the proposed changes were received well. In addition, specifically when drafting the 2024 Remuneration Policy for the Board of Management, the wages and other labor conditions of employees (including internal pay ratios) were taken into account. Many of the remuneration and benefit arrangements applicable to the Board of Management members also apply to the broader executive and/or employee population in the Netherlands (for example: the Annual and Long-Term Incentives, the pension plan, and additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance, Philips product arrangements and company car arrangements). In terms of the internal pay ratios, the Supervisory Board considers the current ratios appropriate for Philips given its size, complexity, global footprint and industry.

The Supervisory Board highly values and appreciates the views that are shared by its stakeholders, and relevant feedback will be mentioned where we address the main changes. The Supervisory Board is obviously aware of sensitivities within Philips and in society regarding Board of Management and Supervisory Board remuneration. As part of its review process and in preparing the new remuneration proposal, the Supervisory Board has also been mindful of the discussions around the implementation of our current 2020 Remuneration Policy for the Board of Management in 2021 and 2022, as also referred to in the Letter from the Remuneration Committee Chair included in the Committee's 2022 Remuneration Report.

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Main changes to the Remuneration Policy for the Board of Management

Quantum Peer Group

The Quantum Peer Group is used to benchmark total compensation levels, and consists of companies of comparable size, complexity and international scope that Philips competes with for executive talent.

In the current Quantum Peer Group (as included in the 2020 Remuneration Policy, and revised most recently in 2023), Philips positioned below the median in terms of size (measured through revenue, number of employees and market capitalization). However, a median positioning in terms of size relative to the peer group is preferred, as we also target the median total compensation level of the peer group. Furthermore, following the transformation that Philips underwent in recent years, certain peer companies became less relevant in terms of attracting talent.

We initiated a review to improve our relative positioning in terms of size and to better reflect our talent pool. As a first step of this review, we created a long list consisting of companies where we hire talent from and risk losing talent to. As a second step, we ranked the companies in the long list based on size, hiring relevance and business focus (in line with our past practice). As a third and final step, we selected the top ranked companies from the long list while making sure that the overall number of peer companies, and specifically the number peer companies from the Netherlands and the US, remained equal.

As a result of the review, we have replaced four companies (Capgemini, Danaher, Rolls-Royce and Safran) with four other companies (GE Healthcare, Dräger, Getinge and Lonza) with more hiring relevance and of which (the latter) three are smaller in size. The resulting new Quantum Peer Group consists of 24 peer companies of comparable size, complexity and international scope, and has the same geographical distribution among Europe (75%) and the US (25%) as the current Quantum Peer Group. The median CEO compensation level did not change compared to the current Quantum Peer Group.

The Supervisory Board believes that this international reference group is appropriate as its hiring market for Board of Management positions extending beyond Europe, and its hiring market competitors are also large global players active in both Europe and the US. At the same time, the Supervisory Board has taken into account feedback received during its preparatory engagements with shareholders and institutional advisory organizations that for companies headquartered in Europe, the share of US companies in its reference group should not be too dominant to reflect local market practice and societal context.

Annual Incentive opportunity

The proposed 2024 Remuneration Policy includes a potential increase of the Annual Incentive target to 120% (from 100%) for the CEO, and to 100% (from 80%) for the CFO and CLO enabling to reward at market median level for the Annual Incentive, as well as to increase the percentage of performance-based remuneration. It is noted that the Supervisory Board will apply unchanged target levels for 2024. Only as of 2025, the Supervisory Board may (gradually) increase the Annual Incentive target levels towards the policy target maximum. It is noted that, whilst this will also increase the Annual Incentive maximum, this maximum remains set to two times the on-target level (as is the case under the 2020 Remuneration Policy).

In response to feedback received during the preparatory engagements with shareholders and institutional advisory organizations, the Supervisory Board confirms its intention that any increase of Annual Incentive levels as of 2025 will be subject to a performance trajectory by 2024 that gives the company a clear outlook to deliver on the 2025 targets which have been defined in our plan to create value with sustainable impact (presented in January 2023), meaning that Comparable Sales Growth, Adjusted EBITA margin and Free Cash Flow performance should be broadly in line with external targets for 2024.

The Supervisory Board is aware of the sensitivity around increasing Board of Management target levels given the internal and external Philips environment. Nonetheless, the proposed increase of Annual Incentive opportunity levels provides the Supervisory Board with the ability to create a competitive executive remuneration package to attract the best talent in the context of succession planning. By making these changes (together with the explanations provided above), the Supervisory Board believes that it can retain market competitiveness, while at the same time taking into consideration the societal context. Please also refer to our considerations on our disciplined approach to adjustments provided below.

The financial element in our Annual Incentive structure

Listening to feedback received during our preparatory engagements, we propose to enhance transparency and create simplicity by setting three (default) categories for the financial element in the Annual Incentive: profit/margin; revenue/growth; and cash flow. For each of these categories, a financial performance metric aligned with the strategic priorities for the year will be selected and disclosed ex-ante, including its weighting. Please refer to our 2023 Remuneration Report for the performance metrics selected for 2024. The targeted performance levels for each metric (i.e., threshold, target and maximum) will be disclosed ex-post, together with the actual performance achieved.

Furthermore, the proposed 2024 Remuneration Policy retains the option to introduce a capital return metric (such as ROA, ROE, ROIC) if deemed appropriate by the Supervisory Board in the future. While reviewing our Remuneration Policy, we've prioritized maintaining consistency in our chosen financial performance metrics. Therefore, we have not yet added a fixed capital return metric at this time.

The non-financial element in our Annual Incentive structure

As is currently the case under the 2020 Remuneration Policy, the achievement/payout of the Annual Incentive is based on a financial element and a non-financial element. In the proposed 2024 Remuneration Policy, the weighting of the non-financial element will increase to 30% (from 20%) and, correspondingly, the weighting of the financial element will decrease to 70% (from 80%). This change reflects the increased relative importance of factors relating to the company's priorities (patient safety and quality, strengthening supply chain reliability, and the simplification of our operating model), as well as our Environmental, Social and Governance (ESG) performance.

This change supports our policy objective: to incentivize management to deliver superior, long-term value to patients, customers and shareholders, while acting responsibly towards our planet and society. We received generally positive feedback about this change during our preparatory engagements with shareholders and institutional advisory organizations. With this change we stay aligned with relevant European market practices.

To simplify and enhance transparency and measurability, we have shortened the list of potential performance categories from five to four. At the start of each year, the Supervisory Board may select two to four categories, whereby each selected performance category will receive an equal weighting. For each selected performance category, one or more performance objectives will be determined at the start of the year for each of the members of the Board of Management. To enhance transparency, we will provide ex-ante disclosure in the remuneration report on the selected performance categories and performance objectives within each category, including how these objectives are measured. Please refer to our 2023 Remuneration Report for a description of the performance categories and objectives selected for 2024, and how they will be measured (subject to the adoption of the proposed 2024 Remuneration Policy for the Board of Management). For each performance objective, targeted performance levels (i.e., threshold, target and maximum) will be defined at the start of the performance period. As these performance levels contain detailed and company sensitive information, they will not be disclosed in the remuneration report. Instead, a qualitative description of the realized performance will be disclosed ex-post.

The annual LTI award size; reference period

The annual LTI award value is set by reference to a multiple of Annual Base Compensation and is unchanged from the 2020 policy. The actual number of performance shares awarded annually to the members of the Board of Management (for the avoidance of doubt: at the start of the performance period) is determined by dividing the award value (a multiple of Annual Base Compensation) by the market price of the Royal Philips shares. To capture realistic value and to limit fluctuation effects, we have extended the reference period by using the average closing price measured over the last month of the quarter preceding the actual grant of performance shares (instead of five trading days preceding the grant date) to determine the relevant market price.

The Relative TSR in our LTI structure

The Supervisory Board considers Relative TSR to be an appropriate performance metric to ensure continued focus on creating shareholder value and it will therefore remain as an LTI performance metric. To meet evolving best practices in Europe and shareholder feedback, we have removed the below-median vesting for the relative TSR metric. Additionally, corresponding with the increased weighting of the ESG performance metric (see below), the weighting of the relative TSR metric has been slightly reduced to 40% (from 50%) to keep a balanced weighting among the three LTI performance metrics.

ESG Performance in our LTI structure

Under the current 2020 Remuneration Policy, the achievement/vesting of the LTI is (partly) based on a 10% weighting of sustainability objectives. We have decided to broaden the sustainability perspective to the full ESG spectrum (instead of mainly environmental objectives), and to increase the weighting of ESG performance from 10% to 20%. By doing so, we aim to reflect the importance of ESG to our company and its increasing relevance to our stakeholders (as a strategic matter and in the context of our risk management), and to incentivize management's focus on our policy objective to deliver superior, long-term value to our stakeholders, while acting responsibly towards our planet and society. We note that this change is aligned with relevant European market trends and practices, and that we received generally positive feedback during our preparatory engagements with shareholders and institutional advisory organizations.

Important investor feedback was that ESG objectives and their targeted performance levels should be sufficiently stretched, and that performance should be determined based on measurable metrics. The current 2020 Remuneration Policy includes five predetermined objectives for the full duration of the Policy. Going forward, we will select four objectives at the start of each performance year in line with our long-term strategic priorities and it is intended that these objectives do not overlap with our Annual Incentive non-financial performance objectives.

Furthermore, we aim to select objectives that are material, auditable and measurable, as included in our Annual Report (in compliance with the Corporate Sustainability Reporting Directive) and therefore subject to our external auditor's reasonable assurance. Selected objectives and their measurement description will be disclosed ex-ante in the remuneration report, whereby each objective will have a 5% weighting. Please refer to the 2023 Remuneration Report for a description of the objectives selected for the 2024 LTI grant, and how they are measured (subject to the adoption of the proposed 2024 Remuneration Policy for the Board of Management). Actual target values and achievement will be disclosed ex-post in the relevant subsequent remuneration report.

Claw-back of variable pay

Following shareholders' feedback received during earlier engagements, we performed an evaluation of the claw-back provisions typically included in the services contracts of the members of the Board of Management, benchmarking them against the companies in our Quantum Peer Group and other AEX companies. We concluded that our claw-back provisions are aligned with Dutch and international market practice. The proposed 2024 Remuneration Policy nevertheless includes changes relevant to our claw-back regime.

First, we extended the description of the claw-back in the proposed 2024 Remuneration Policy to better describe the claw-back provisions in the services contracts, in line with market practice.

Second, our evaluation led us to extend the Supervisory Board's discretion to claw back variable remuneration in case of any Philips General Business Principles violation, not only in case of serious violations. Exercising such discretion will obviously still require a case-by-case assessment by the Supervisory Board. The change will furthermore only apply to future service contracts to be agreed upon any appointment or re-appointment of a member of the Board of Management.

Finally, the proposed 2024 Remuneration Policy refers to our compliance with certain new requirements of the New York Stock Exchange Listed Company Manual (Section 303A.14) through our adoption of a Policy on the Recovery of Erroneously Awarded Incentive-Based Compensation (as published on our website). In essence, compliance with this policy will require the Supervisory Board to exercise its powers to claw back excess incentive-based remuneration in the event of a mandatory accounting restatement.

Hiring policy

The hiring policy in the current 2020 Remuneration Policy allows certain cash or share-based awards to external hires. We have slightly revised the relevant wording in the proposed 2024 Remuneration Policy, referring to 'buy-out' instead of 'sign-on' awards, to reflect our practice to merely (partially) compensate incoming members of the Board of Management for forfeited variable pay at their previous employers. In principle, such buy-out awards will mostly be made in the form of performance shares, however as the intent is to replicate the structure of the forfeited compensation, a partial cash award may also be considered. As in the current 2020 Remuneration Policy, the value and structure of any 'buy-out' award shall be made public when the proposal to appoint the relevant nominee to the Board of Management is submitted to the General Meeting of Shareholders.

Services agreements

The services agreements that are entered into between the company and members of the Board of Management include, in accordance with the Dutch Corporate Governance Code, a severance payment which is limited to a maximum of one year's Annual Base Compensation. The Supervisory Board has noted that certain institutional advisory organizations have started advocating that Dutch companies should not pay severance to members of their board of management upon the expiry of their term of appointment (i.e. without a subsequent re-appointment) and that remuneration due during any applicable notice period should in fact be deducted from the (maximum) severance payment. Nevertheless, the Supervisory Board has decided to retain our current severance payment regime as it is aligned with general Dutch practice.

The notice period arrangements in our services contracts are also generally aligned with current Dutch practice. If a Board of Management member's term of appointment expires, no notice period applies, and the relevant services contract terminates automatically. If a board member resigns before the end of his/her term of appointment or if the engagement is terminated early at the initiative of the Company, the relevant services contract terminates taking into account a 6 months' notice period. It is noted that, in all of these potential scenarios, a member of the Board of Management is expected to continue to work until the actual termination of his/her services agreement, and therefore also during any notice period. A (partial) period of garden leave will only be considered if in the view of the Supervisory Board an accelerated departure of a member of the Board of Management is in the best interest of the company and its stakeholders.

However, also acknowledging feedback received during our preparatory engagements, the Supervisory Board has decided to include in any services agreement to be concluded in the future, that members of the Board of Management will no longer be eligible for an Annual Incentive pay-out over a period of garden leave during any applicable notice period. This is aligned with the practice as it is currently also operated for the Dutch executive population.

Disciplined approach to adjustments (financial element in Annual Incentive and EPS growth in LTI)

As communicated earlier, the Supervisory Board has been mindful of the fact that, during the Annual General Meeting of Shareholders held in 2022, a majority of the advisory votes were cast against the 2021 Remuneration Report. Since then, the Supervisory Board has been considering its Annual Incentive and LTI adjustment methodology and it has been an important topic during all shareholder engagements. The waiver, in 2023, of the 2022 Annual Incentive and LTI for the Board of Management, already showed that the company no longer automatically applies a uniform Annual Incentive and LTI adjustment approach for the Board of Management on the one hand and for the broader workforce on the other hand.

During our preparations for the proposed 2024 Remuneration Policy, while shareholders raised obvious concerns that adjustments could distract members of the Board of Management from their primary responsibilities, most of them told us that they understand that adjustments can also help incentivize members of the Board of Management to make effective decisions in the best interests of the company and its stakeholders.

These considerations resulted in certain further changes to our adjustment methodology laid down in the proposed 2024 Remuneration Policy. First, in respect of adjusted Earnings Per Share growth (40% weighting in LTI performance), we have included an explicit reference to legal proceedings as potential significant events that were not planned when targets were set or that were outside of management's control. The Supervisory Board notes that this may, under certain circumstances, allow for adjustments for significant one-off impacts that are directly related to the company's efforts to drive resolution of and take away uncertainty around legal proceedings that have arisen from events prior to the performance period. Legal proceedings may include regulatory and other governmental proceedings, as reported on from time to time in the note on Contingencies to the company's Group financial statements. As is the case for the inclusion of any adjustment, an adjustment for legal proceedings will only be made following a specific case-by-case assessment by the Supervisory Board and weighing the interest of the company and its stakeholders in resolving past issues, such as whether to seek a settlement instead of pursuing legal proceedings, and (if so) considering the size of and sentiment around such settlement. This change is specifically driven by our acknowledgement of our management's current priority of resolving the consequences of the Respironics recall, and the importance of further steps which are expected to follow in respect of related legal proceedings. As also acknowledged by most of the shareholders we engaged with, it is in the interest of the company to uphold realistic but appropriate variable pay opportunities to incentivize management to make difficult decisions that may impact the company negatively in the short term, but that benefit the company and its stakeholders in the longer term. This will also enable us to retain sufficient market competitiveness supporting the effectiveness of our succession planning in line with our policy objective to attract, motivate and retain world-class talent.

Second, to continue to work to build trust and support from our investors, as well as broader society specifically in the Netherlands, we are explicitly committed to ensure that payout is aligned with company performance and stakeholder interest. With this commitment, we want to demonstrate our responsibility to ensure appropriate payouts, whether resulting from the selection of any externally reported adjusted metric or any adjustment for other financial metrics selected for our Annual Incentive, or any adjustment of reported Earnings Per Share (EPS) for LTI Plan EPS purposes. In all such cases, the Supervisory Board will weigh against company performance and stakeholder interest and clearly articulate the reasons for the adjustment. Through our remuneration reports we will continue to render accountability for our future decisions implementing the proposed 2024 Remuneration Policy.