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Long-Term Incentive Plan

Introduction

Please find below the new LTI Plan applicable to the members of the Board of Management, as approved at the Annual General Meeting of Shareholders held on May 11, 2017.

Features of the Long-Term Incentive Plan

Type of plan

The Long-Term Incentive Plan (LTI Plan) allows for the award of performance-related shares ('performance shares'), without the facility to grant options.

Vesting schedule

A cliff-vesting three years after the date of grant applies, dependent upon the achievement of the performance conditions.

During the vesting period, the value of dividends will be added to the performance shares in the form of stock. These dividend equivalent shares will only be delivered to the extent that the award actually vests.

Performance conditions

Vesting of the performance shares is based on two equally weighted performance conditions:

- 50% Relative Total Shareholder Return ('TSR'); and
- 50% Adjusted Earnings per Share growth ('EPS').

TSR

A ranking approach to TSR applies with Philips itself included in the peer group so that interpolation is not necessary. The TSR peer group consists of 20 companies[1], including Philips. The peer companies together reflect the business portfolio of Philips.
The performance incentive pay-out zone is outlined in the table below, which results in zero vesting for performance below the 40th percentile and 200% vesting for performance levels above the 75th percentile (i.e., no change from current Plan). The incentive zone range has been constructed such that the average pay-out over time is expected to be approximately 100%:

TSR Philips	20	19	18	17	16	15	14	13	12	11	10	9	8	7	6	5	4	3	2	1
Pay-out %	0	0	0	0	0	0	0	60	80	100	120	140	160	180	190	200	200	200	200	200

1 Becton Dickinson, Boston Scientific, Cerner, Danaher, De'Longhi, Elekta, Fresenius Medical, General Electric, Getinge, Groupe SEB, Hitachi, Hologic, Johnson & Johnson, Medtronic, Resmed, Siemens, Smith & Nephew, Stryker and Terumo. Note: Siemens will be replaced by Siemens Healthineers if separately quoted.

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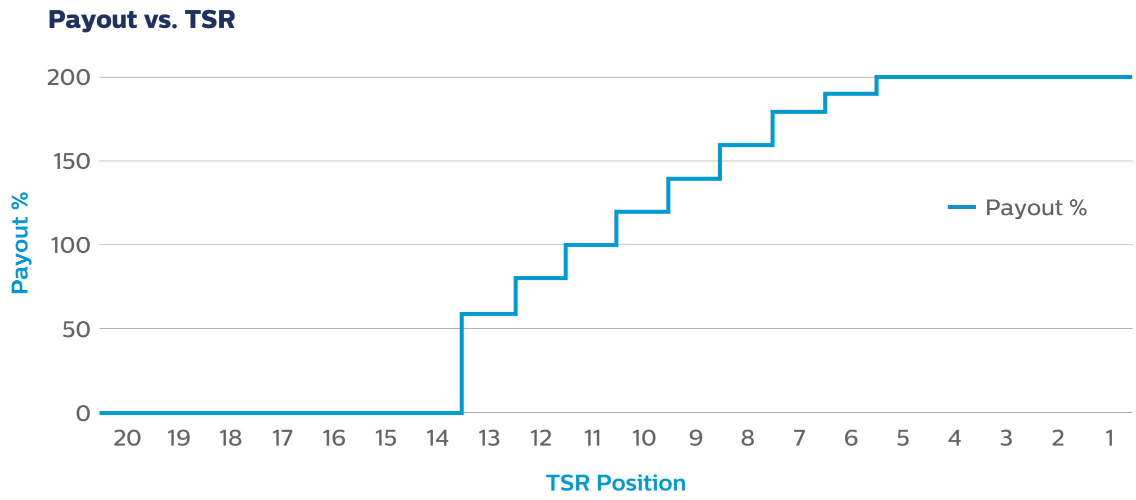


EPS

EPS growth is calculated applying the simple point-to-point method at year-end.

Earnings are the income from continued operations attributable to shareholders as reported in the annual report.

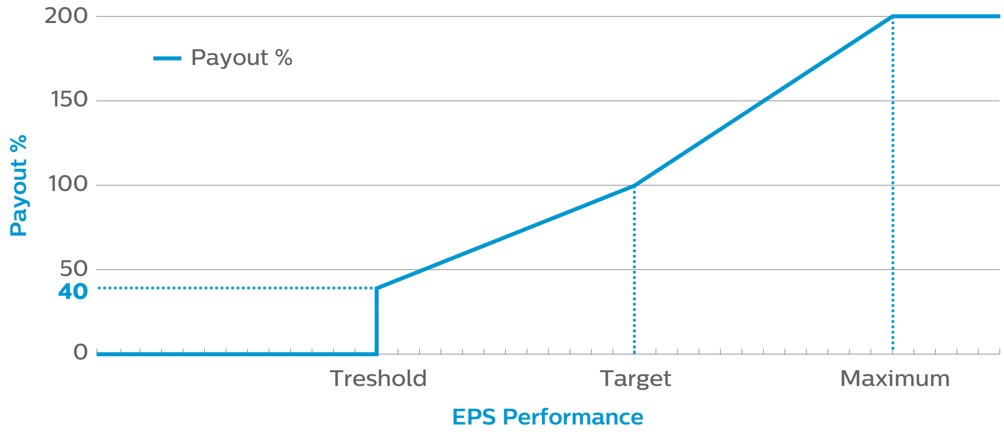
To eliminate the impact of any share buyback, stock dividend etcetera, the number of shares to be used for the purpose of the EPS realization will be the number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period.

Earnings are adjusted for changes in accounting principles during the performance period. The Supervisory Board has discretion to include other adjustments, for example, to account for events that were not planned when targets were set or were outside management's control (e.g., impairments, restructuring activities, pension items, M&A transactions and costs, currency fluctuations).

The following performance incentive zone applies for EPS:

Adjusted EPS growth Philips	Below threshold	Threshold	Target	Maximum
Pay-out	0%	40%	100%	200%

The EPS targets will be set by the Supervisory Board annually. EPS targets are considered to be company sensitive; therefore, these will be disclosed retrospectively at the end of the performance period. EPS targets and the achieved performance will be published in the first annual report after the relevant performance period.



Example*

In year 1 a member of the Board of Management receives X performance shares.

At the end of the three year performance period Philips ranks 10 in the TSR peer group, resulting in a vesting of 120% for the TSR part.

The EPS performance equals the target performance, resulting in 100% vesting for the EPS part. The total vesting for this award will be:

50% x 120% + 50% x 100% = 110% of the number of performance shares awarded in year 1

Year 1	Year 2	Year 3	Year 4
▲ Award of X performance shares			▲ Delivery of 110%* X shares

** Example is excluding the effect of stock dividends added during the performance period.*

Grant dates

There are four dates of grant per year, which will be on the last day of the five day averaging period (used to determine the grant price) after publication of the annual results and the quarterly results. The main grant will be once a year after publication of the first quarter results; other dates of grant can be used in exceptional occasions.[2]

Change of control

In the event of a change of control of the company, the Supervisory Board at its sole discretion can decide to accelerate the vesting of any unvested 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.

2 In 2017, as an exception, the grant was made on May 11.

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Annual pool size

The maximum number of shares to be granted on a yearly basis in aggregate to all employees under LTI Plans will not exceed the current pool size of 17.5 million (excluding dividend equivalent shares or vesting above 100%). The maximum number of shares to be granted on a yearly basis to the members of the Board of Management will not exceed 525,000.

Changes to the plan

Substantial changes to the LTI Plan applicable to the Board of Management will be submitted to the General Meeting of Shareholders for approval, such as changes in the peer group - for reasons such as delisting of a peer company or substantial change of its activities - exceeding three companies on an annual basis (for instance for reason of a merger of two peer companies) or six companies in total.

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