



# Long-Term Incentive Plan for the Board of Management

Please find below the Long-Term Incentive Plan for the Board of Management, as approved at the Annual General Meeting of Shareholders 2020. This 2020 Long-Term Incentive Plan replaced the previous Long-Term Incentive Plan, approved by our shareholders at the 2017 Annual General Meeting of Shareholders.

## Introduction

Members of the Board of Management are eligible for grants under the Long-Term Incentive (LTI) Plan for the Board of Management applicable from time to time as approved by the General Meeting of Shareholders. 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 furthermore measured over a three years' vesting period and an additional two year's holding period applies (see also below).

## Type of plan

The LTI Plan allows for the award of performance-related shares ('performance shares', shares granted conditionally upon achieving defined business performance targets), without the facility to grant options.

## Grant size

The number of shares granted to the President/CEO equals 200% of Annual Base Compensation. For the other members of the Board of Management, the number of shares granted equals 150% of Annual Base Compensation. These grant sizes are based on the median of the Quantum Peer Group (which differs from the TSR Performance Peer Group, see below, in terms of geographical and business representation). 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. The maximum number of shares that can vest is two times the number of shares awarded.

## 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 also set forth below. During the vesting period, the value of dividends will be added 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).

## Performance criteria

The vesting of the performance shares is subject to performance over a period of 3 years and based on two financial criteria and one non-financial criterion:

- 50% weighting: Relative Total Shareholder Return ('TSR')
- 40% weighting: Adjusted Earnings per Share growth ('EPS')
- 10% weighting: Sustainability objectives

## Relative Total Shareholder Return (50% weighting)

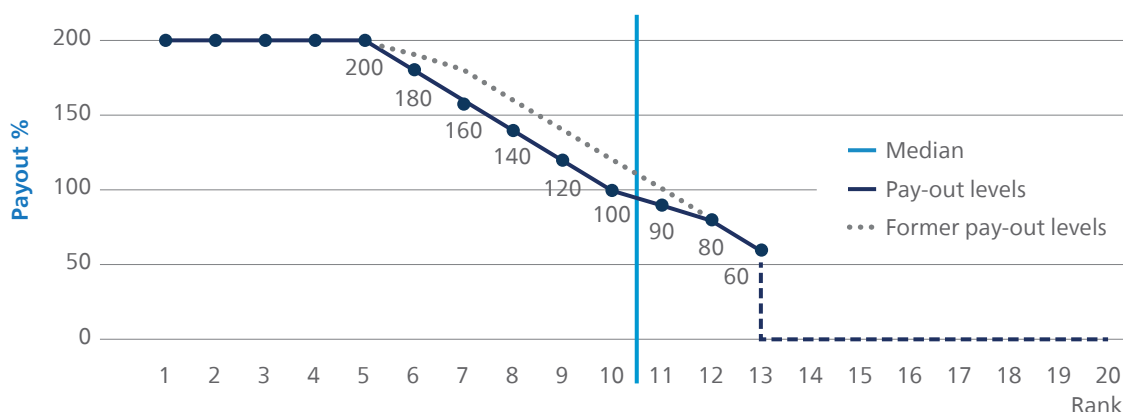
TSR as realized by Philips over a period of three years is compared to TSR realized by peers from the TSR Performance Peer Group:

US companies (10)	European companies (7)	Japanese companies (2)
Becton Dickinson	De Longhi	Hitachi
Boston Scientific	Elekta	Terumo
Cerner	Fresenius Medical Care	
Danaher	Getinge	
General Electric	Groupe SEB	
Hologic	Siemens Healthineers	
Johnson & Johnson	Smith & Nephew	
Medtronic		
Resmed		
Stryker		

Changes to the TSR Performance Peer Group can 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 of two peer companies), or six companies in total during the four years following the approval of this Long-Term Incentive Plan (or, if earlier, until the approval of a revised long-term incentive plan). In addition to these changes, in view of Philips' planned portfolio change through the potential divestment of its domestic appliances businesses, the Supervisory Board may decide to remove Groupe SEB and De Longhi from the TSR Performance Peer Group and replace them by other business competitors in the health technology market. Any changes to the TSR Performance Peer Group will be disclosed in the yearly remuneration report.

The rank achieved by Philips within the TSR Performance Peer Group will determine the pay-out 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	
Pay-out %	200	200	200	200	200	180	160	140	120	100	90	80	60	0	0	0	0	0	0	0	0



TSR scores are calculated based on a local currency approach and by taking a 3-month averaging period prior to the start and end date of the 3-year performance period.<sup>1</sup>

The performance incentive pay-out zone is outlined in the table above, which results in zero vesting for performance below the 40th percentile and 200% vesting for performance levels above the 75th percentile. For a vesting level of 100% or higher, Philips will need to outperform the TSR Performance Peer Group.

### Adjusted Earnings per Share growth (40% weighting)

EPS growth is calculated applying a point-to-point method comparing EPS for LTI Plan purposes as achieved at the beginning and end of the performance period (i.e. 3 years).

LTI Plan EPS is based on the EPS as reported by Philips, subject to adjustments 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). It will be disclosed in the yearly remuneration report if adjustments are made.

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
Pay-out	0%	40%	100%	200%

<sup>1</sup> The reason for using local currency is that the TSR measurement aims to compare the return that companies in the TSR 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 TSR Performance Peer Group. Next to that we strive for consistency over time by applying our TSR measurement methodology over longer periods of time.

The LTI Plan EPS targets will be set by the Supervisory Board annually. LTI Plan EPS targets are considered to be company sensitive; therefore, 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 Remuneration Report after the relevant performance period.

## Sustainability objectives (10% weighting)

In order to further align the remuneration package for the Board of Management with our mission, vision and our aim to act as a responsible member of society, a sustainability criterion is introduced in the LTI Plan. Philips believes that sustainability performance will improve the company's performance as a whole and, therefore, that it should be explicitly linked to (long-term) remuneration.

The criteria are based on three Sustainable Development Goals (SDGs) as defined by the United Nations that are included in Philips' strategy on sustainability (no. 3, 12 and 13).

These three main pillars are translated in a total of five underlying objectives, which are measured against a specific target range<sup>2</sup>, being:

Sustainability category	Underlying objective
Ensure healthy lives and promote well-being for all at all ages (SDG3)	Targeted # of Lives Improved in year 3 <sup>A</sup>
<i>Lives improved</i>	
Take urgent action to combat climate change and its impacts (SDG13)	Targeted CO <sub>2</sub> equivalent (in Kilo Tonnes) footprint in year 3
<i>Carbon footprint</i>	
Ensure sustainable consumption and production patterns (SDG12)	Targeted circular revenue in year 3 <sup>B</sup>
	Targeted waste to landfill in year 3 <sup>C</sup>
<i>Circularity</i>	
	Targeted closing the loop in year 3 <sup>D</sup>

A Lives Improved by Philips products, solutions and services and care to those in underserved markets.

B Revenue from circular products (re-using materials).

C Avoiding production of waste materials.

D Taking back healthcare equipment.

For each of the five objectives challenging target ranges 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 pay-out is determined based on the following scheme:

No. of measures achieved within or above target zone	Pay-out %
1	0
2	0
3	50 - 100
4	100 - 150
5	150 - 200

The Supervisory Board will assess the overall performance on all targets to decide on the final pay-out. When performance is on average higher within the target range per target, the pay-out will be higher positioned in the pay-out range.

<sup>2</sup> For the objectives defined and sustainability objectives in general, the level of uncertainty surrounding the objectives is such that – instead of a fixed target – a challenging target range per objective is defined by the Remuneration Committee for each 3-year performance cycle.

The Supervisory Board has 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). Only when it is, given the nature of Sustainability targets, not possible to determine the level of certain adjustments, the Supervisory Board may decide to adjust the targets instead of the performance.

## 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.

## 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.

## 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 an annual basis to the members of the Board of Management will not exceed 525,000.

## Changes to the LTI 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 beyond the Supervisory Board's discretion to revise the TSR Performance Peer Group as set forth above.

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

