Remuneration Policy for the **Board of Management**

Please find below the Remuneration Policy for the Board of Management, as adopted at the Annual General Meeting of Shareholders 2020. This Remuneration Policy replaced the previous Remuneration Policy, adopted by our shareholders at the 2017 Annual General Meeting of Shareholders.

Objectives and principles

The objectives of the Remuneration Policy for the Board of Management are in line with those for Philips Executives throughout the Philips group: to focus them on delivering on our mission, vision and strategy, to motivate and retain them, and to create stakeholder value.

Thus, the Remuneration Policy:

- supports improving the company's overall performance and enhancing the long-term value of the company
- directly supports our mission and vision by:
  a) linking a part of remuneration to achieving our strategic imperatives through the criteria and targets included in the Annual and Long-Term Incentive
  b) offering market competitive compensation compared to a peer group of business competitors and companies we compete with for executive talent
  c) enabling us to motivate, retain and attract world-class talent in order to support our vision of making the world healthier and more sustainable through innovation and our goal of addressing our customers' healthcare challenges (delivering on the Quadruple Aim[1])
  d) stimulating share ownership to create alignment with shareholders and encourage employees to act as stewards and ambassadors of the company
- encourages acting responsibly and sustainably
- delivers value for our stakeholders such as shareholders, customers, consumers, employees by continuously engaging with them and make a positive contribution to society at large
- leads to fair and internally consistent pay levels by taking into account internal pay ratios

> *"Our LTI's are subject to performance criteria that reflect the company's longer term strategy and goals"*

> *"We take the views of our stakeholders into account when making remuneration proposals"*

1 Enhancing the patient experience, improving health outcomes, lowering the cost of care, and improving the work life of care providers.

PHILIPS

Main changes compared to 2017 Remuneration Policy

The implementation of the revised EU Shareholders Rights Directive (2017/828) into Dutch law (effective December 2019) required the Remuneration Policy (and the Long-Term Incentive Plan) for the Board of Management to be amended to align with certain new requirements, such as the more explicit considerations around the way the proposed Policy supports our mission and vision and around the engagement with, and feedback received from our stakeholders.

In addition, a number of other changes were implemented compared to the previous 2017 Remuneration Policy. The main changes are as follows.

Quantum Peer Group

The Quantum Peer Group for compensation benchmarking purposes changed from 26 to 24 companies. Alcatel Lucent was excluded as it was acquired by Nokia (which was already included in the Quantum Peer Group), and Essilor International was excluded after its merger into a company with a business profile with less relevance for Philips.

Annual Incentive (individual element)

To enhance transparency, five performance categories were defined for the individual element of the Annual Incentive (20% weighting). Each year, relevant categories will be chosen and related targets will be set for each of the members of the Board of Management.

Long-Term Incentive

A sustainability criterion (non-financial) was introduced in the Long-Term Incentive next to the financial criteria TSR and EPS. In addition, the TSR vesting schedule was changed, reducing pay-out at and around median performance.

"Our TSR vesting schedule was changed to reduce payout at and around median performance"

Compensation benchmarking and measuring business performance

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

1. Quantum Peer Group for compensation benchmarking purposes

In determining the Remuneration Policy, the Remuneration Committee ensures that a competitive remuneration package for Board of Management-level executive talent is maintained and benchmarked, while at the same time taking into account the specific remuneration landscape and societal context in which Philips operates. Even though Philips operates in a highly competitive global environment, non-European companies are underrepresented in the Quantum Peer Group.

Our remuneration levels are at or close to the median of this Quantum Peer Group and as a result they are at a relatively modest level compared to the global remuneration landscape and compared to the level that would apply if the TSR Performance Peer Group (see under 2.) would have been used as a benchmark.

"We pay our Board of Management at, or close to the median of our Quantum Peer Group"

The companies in the Quantum Peer Group are either business competitors, with an emphasis on companies in the healthcare, technology related or consumer products area, or companies we compete with for executive talent. They consist of predominantly Dutch and other European companies and up to 25% of US based global companies (17% based on current composition), of comparable size, complexity and international scope.

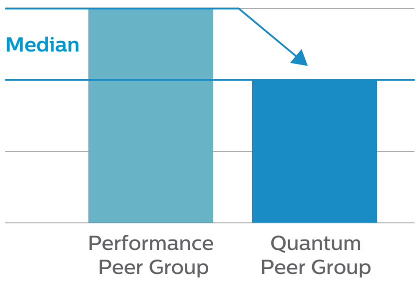
Data research is carried out each year on the remuneration practices within the Quantum Peer Group.

The Quantum Peer Group consists of the following companies:

European companies (16)		Dutch companies (4)	US companies (4)
Atos	Nokia	Ahold Delhaize	Becton Dickinson
BAE Systems	Reckitt Benckiser	AkzoNobel	Boston Scientific
Capgemini	Roche	ASML	Danaher
Electrolux	Rolls-Royce	Heineken	Medtronic
Ericsson	Safran		
Essity	Siemens Healthineers		
Fresenius Medical Care	Smith & Nephew		
Henkel & Co	Thales		

Changes to the Quantum Peer Group can 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 during the four years following the adoption of this Remuneration Policy (or, if earlier, until the adoption of a revised remuneration policy). Any changes to the Quantum Peer Group will be disclosed in the yearly remuneration report.

Remuneration levels



2. TSR Performance Peer Group for Relative Total Shareholder Return performance

The TSR Performance Peer Group is used to determine payout as part of the Long-Term Incentive Plan. 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 taken 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 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		

Remuneration structure

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

Total direct remuneration 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. The positioning of total direct remuneration and its main components is reviewed against benchmark data on an annual basis and is recalibrated if and when required.

Annual Base Compensation (ABC)

Definition and purpose	Policy level
Fixed cash payments intended to attract and retain executive of the highest caliber and to reflect their experience and scope of responsibilities	Annual Base Compensation levels and any adjustments made 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 pay ratios

Annual Incentive (AI)

Definition and purpose	Policy level	
	President & CEO	**Other BoM members**
Variable cash bonus incentive of which achievement is tied to specific financial and non-financial targets derived from the company's annual strategic plan	On-target: **100%** Maximum: **200%** of Annual Base Compensation	On-target: **80%** Maximum: **160%** of Annual Base Compensation

Long-Term Incentive (LTI)

Definition and purpose	Policy level	
	President & CEO	**Other BoM members**
Variable equity incentive of achievement is tied to targets reflecting long-term stakeholder value creation and delivered in the form of performance shares	Annual grant size: **200%** of Annual Base Compensation	Annual grant size: **150%** 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) CDC plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 110,111) 2) Gross allowance of 25% of annual base compensation exceeding EUR 110,111 3) Temporary gross transition allowance offsetting historical plan changes

Additional benefits

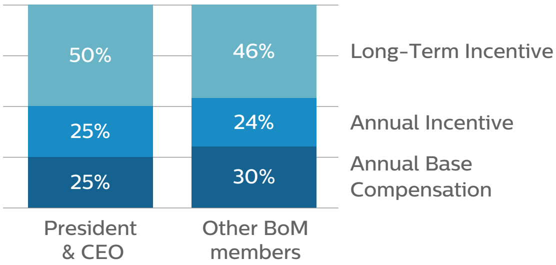
Definition	Policy level
Cash value (grossed up) of the benefits received, which are in line with other Philips executives in the Netherlands	Additional arrangements include expense and relocation allowances, medical insurance, accident insurance and company car arrangements

PHILIPS

Mix of remuneration elements

To support the Remuneration Policy's objectives, it 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 on-target value of fixed (ABC) versus variable compensation (AI and LTI). Approximately 70-75% of compensation is variable

Remuneration elements



Annual Base Compensation

Base compensation levels and any adjustments made 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 pay ratios. The annual review date for the Annual Base Compensation is typically April 1, and the individual compensation levels are shown in the Remuneration Report.

Annual Incentive

"Ex ante disclosure of AI performance criteria with ex post disclosure of target realization"

Each year, a variable Annual Incentive (cash bonus) 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 On-target Annual Incentive amounts to 100% of Annual Base Compensation, for other members of the board of management it amounts to 80% of Annual Base Compensation. Targets are set at challenging levels and are partly linked to the financial results of the company (80% weighting) and partly to the contribution of the individual member (20% weighting). Criteria and, if applicable, their weighting will be disclosed ex-ante in the remuneration report and there will be no retroactive changes to the selection of criteria used in any given year once approved by the Supervisory Board and disclosed. Realization of targets will be disclosed ex-post in the remuneration report.

The Annual Incentive criteria consist of:

1) Financial criteria (80% weighting):

Two to four key financial indicators of the company's results are selected from the following list:

- profit/margin
- revenue/growth
- cash flow
- shareholder/capital return measures (such as ROA, ROE, ROIC)
- economic/market value added measures

The Annual Incentive pay-out on financial criteria in any year relates to the achievements of the preceding financial year versus set targets.

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

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

PHILIPS

2) Individual criteria (20% weighting):

The contribution of the individual member is assessed based on areas of responsibility for which two to a maximum of five performance categories will be selected for each Board of Management member from the following list:

- Customer results
- Quality & operational excellence
- Strategy execution
- People & organization
- Sustainability

The selection of the categories (and the underlying targets), as well as the content and number of targets, may vary per Board Member per year to ensure alignment with the key (strategic) priorities in that year. The Supervisory Board will holistically assess performance versus categories (which will be selected yearly and disclosed ex ante) and underlying targets and grant a pay-out between 0% and 200% (i.e. a pay-out between 0% and 40% of the on-target Annual Incentive amount).

Long-Term Incentive

Members of the Board of Management are eligible for grants under the Long-Term Incentive (LTI) Plan 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).

The main features of the LTI Plan are described below. For more details please refer to the Long-Term Incentive Plan, as proposed separately for approval at the Annual General Meeting of Shareholders 2020

Type of plan

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

Grant size

The annual award size is set by reference to a multiple of Annual Base Compensation: 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. These grant sizes are based on the median of the Quantum Peer Group (which differs from the TSR Performance Peer Group, in terms of geographical and business representation). The actual number of performance shares to be awarded is calculated on the basis of 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 determined in the LTI Plan. 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).

PHILIPS

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

"Sustainability objectives have been introduced to align with our company ambitions"

Mandatory share ownership

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, but they are not required to make additional share purchases.

Pension

The pension arrangement applicable to the members of the Board of Management consist 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 110,111 (effective January 1, 2020, 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 110,111.

Pension Transition Allowance

Members of the Board of Management who were participants of the former Executive Pension Plan that applied until December 31, 2014, receive a temporary gross Pension Transition Allowance. This Allowance applies for a maximum period of 8 years (first 5 years in full; year 6 (2020): 75%; year 7 (2021): 50%, year 8 (2022): 25%).[2]

Members of the Board of Management have the opportunity to make voluntary after tax contributions (from the pension allowances received) into a DC scheme provided through ABN AMRO Pensioenen. Dependents cover for income above the abovementioned EUR 110,111 is provided on an insured basis regardless whether any voluntary contributions are made. In line with the arrangement for other executives in the Netherlands, Philips covers the cost of this insurance cover.

Services agreements

Pursuant to Dutch law, the members of the Board of Management are engaged by means of a services agreement (*overeenkomst van opdracht*). Termination of the contract by either party is subject to a six months' notice period. The severance payment is limited to a maximum of one year's Annual Base Compensation. No severance payment is due in case the agreement is terminated early at the initiative of the Board of Management member or in case of urgent cause (*dringende reden*) as defined in article 7:678 DCC and further.

The term of the services agreement is aligned with the term for which the relevant member has been appointed by the General Meeting of Shareholders (which is a maximum period of four years, it being understood that this period expires no later than at the end of the AGM held in the fourth year after the year of appointment).

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 and company car arrangements are broadly in line with those for Philips Executives in the Netherlands. In the event of disablement, members of the Board of Management are entitled to benefits, 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.

2 With their re-appointment in 2019, for the CEO and CFO, it has been agreed to maintain the pension transition allowance at the same level until the end of their term in 2023.

Claw-back and adjustments

The so-called claw-back clause of article 2:135 sub 8 of the Dutch Civil Code is applicable to Annual Incentive payments and Long-Term Incentive grants to all members of the Board of Management. For grants as of 2013, the claw-back clause has been extended to include cases of a serious violation of the Philips General Business Principles or applicable law.

The Supervisory Board also has the authority to adjust the value of these variable remuneration components in the event of an unfair result as provided for in article 2:135 sub 6 of the Dutch Civil Code, and to include adjustments for changes in accounting principles during the performance period and other adjustments to account for events that were not planned when targets were set or were outside management's control.

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 the Remuneration Policy for the Board of Management. In addition, the Supervisory Board may, at its sole discretion, 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 apply discretion in setting 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 sign-on awards may be awarded, covering compensation that the incoming member of the Board of Management forfeits by leaving previous employers. This shall be made public as part of the proposal for appointment of that member of the Board of Management.

Deviation

In accordance with Dutch law, the Supervisory Board shall only be allowed to deviate from the Remuneration Policy for the Board of Management in exceptional circumstances, and 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 Remuneration 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. Deviations shall be disclosed in the remuneration report.

Process and stakeholder engagement

Roles

The Supervisory Board is responsible for proposing the Remuneration Policy and Long-Term Incentive Plan for the Board of Management, in accordance with Dutch law and the Dutch Corporate Governance Code, for adoption by the General Meeting of Shareholders.
The remuneration of the individual members of the Board of Management is determined by the Supervisory Board in accordance with such policy and plan.

The Remuneration Committee of the Supervisory Board is responsible for reviewing and preparing proposals for the Supervisory Board on the Remuneration Policy and Long-Term Incentive Plan for the Board of Management. It also reviews the implementation of such policy and plan and prepares proposals for the Supervisory Board in relation hereto. More information about the role, responsibilities and functioning of the Remuneration Committee can be found in its charter, as included in the Rules of Procedure for the Supervisory Board published on the company's website. The Remuneration Committee conducts a scenario analysis annually. This includes the calculation of remuneration under different scenarios, whereby different Philips performance assumptions and corporate actions are examined.

Process and stakeholder engagement

During (part of) 2019 and 2020, the Remuneration Committee conducted a review of the 2017 Remuneration Policy and Long-Term Incentive Plan for the Board of Management to ensure alignment with the implementation of the revised EU Shareholders Rights Directive (2017/828) into Dutch law and to emphasize the company's sustainability ambitions. The Remuneration Committee was assisted by the company's in-house remuneration expert and an external consultant advisor from Willis Towers Watson. The design of the 2020 Remuneration Policy is based on the objectives and principles as included in such policy.

Through a dedicated remuneration roadshow and other interactions, the Remuneration Committee engaged with a number of the company's shareholders (in aggregate representing approximately 35% of the issued share capital) and institutional advisory organizations, to solicit their feedback on, and support for the then proposed 2020 Remuneration Policy and Long-Term Incentive Plan for the Board of Management. Topics that were discussed included i) the introduction of meaningful and verifiable measurements for the sustainability criterion in the Long-Term Incentive, ii) the TSR measurement methodology including the vesting scheme and the use of local currency and iii) whether and at what moment the company will include a capital return criterion in its incentive schemes. Feedback received during these engagements has been taken into consideration in the 2020 Remuneration Policy and Long-Term Incentive Plan for the Board of Management.

The company also consulted with employees and employee representative bodies using regular contact moments.

In addition, when drafting the 2020 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 Incentive plans, the pension plan and additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance 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.