Agenda for the Annual General Meeting of Shareholders 2017

To be held at the Hilton Amsterdam hotel, Apollolaan 138, Amsterdam on Thursday, May 11, 2017, beginning at 14.00 hours.

1. Speech of the President

   a. Explanation of the implementation of the Remuneration Policy
   b. Explanation of policy on additions to reserves and dividends
   c. Proposal to adopt the financial statements
   d. Proposal to adopt a dividend of EUR 0.80 per common share, in cash or in shares at the option of the shareholder, against the net income for 2016
   e. Proposal to discharge the members of the Board of Management
   f. Proposal to discharge the members of the Supervisory Board

3. Remuneration of the Board of Management
   a. Proposal to amend the Remuneration Policy
   b. Proposal to approve the revised Long-Term Incentive Plan

4. Composition of the Supervisory Board
   a. Proposal to re-appoint Mr J. van der Veer as member of the Supervisory Board with effect from May 11, 2017
   b. Proposal to re-appoint Mrs C.A. Poon as member of the Supervisory Board with effect from May 11, 2017

5. Remuneration of the Supervisory Board
   Proposal to determine the remuneration of the members of the Supervisory Board

6. Authorization of the Board of Management to (i) issue shares or grant rights to acquire shares and (ii) restrict or exclude pre-emption rights
   a. Proposal to authorize the Board of Management for a period of 18 months, effective May 11, 2017, as the body which is authorized, with the approval of the Supervisory Board, to issue shares or grant rights to acquire shares within the limits laid down in the Articles of Association
   b. Proposal to authorize the Board of Management for a period of 18 months, effective May 11, 2017, as the body which is authorized, with the approval of the Supervisory Board, to restrict or exclude the pre-emption rights accruing to shareholders
The authorization referred to above under a. will be limited to a maximum of 10% of the number of issued shares as of May 11, 2017, plus 10% of the issued capital as of that same date in connection with or on the occasion of mergers, acquisitions and/or strategic alliances.

7. Authorization of the Board of Management to acquire shares in the company

Proposal to authorize the Board of Management for a period of 18 months, effective May 11, 2017, within the limits of the law and the Articles of Association, to acquire, with the approval of the Supervisory Board, for valuable consideration, on the stock exchange or otherwise, shares in the company at a price between, on the one hand, an amount equal to the par value of the shares and, on the other hand, an amount equal to 110% of the market price of these shares on Euronext Amsterdam; the market price being the average of the highest price on each of the five days of trading prior to the date on which the agreement to acquire the shares is entered into, as shown in the Official Price List of Euronext Amsterdam.

The maximum number of shares the company may acquire and hold, will not exceed 10% of the issued share capital as of May 11, 2017, which number may be increased by 10% of the issued capital as of that same date in connection with the execution of share repurchase programs for capital reduction purposes.

8. Cancellation of shares

Proposal to cancel common shares in the share capital of the company held or to be acquired by the company. The number of shares that will be cancelled shall be determined by the Board of Management.

9. Any other business

Agenda items indicated as “proposal” are voting items. This agenda with the explanatory notes, the annual report, the financial statements, the binding nominations and other documents relevant for the Annual General Meeting 2017 have been published on the company’s website (www.philips.com/agm). The meeting documents are also available at the offices of the company (Amstelplein 2, 1096 BC Amsterdam), at ABN AMRO Bank N.V. Corporate Broking (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam, tel +31 20 344 2000 and email: corporate.broking@nl.abnamro.com), and will be available at the meeting.
Explanatory notes to the agenda for the AGM 2017

1. Speech of the President

   In his speech the President will look back on the financial year 2016, including the company’s financial performance.


   This agenda item first includes two non-voting items: the implementation of the company’s Remuneration Policy in 2016, and the company’s policy on additions to reserves and dividends. In respect of the first item, please refer to the Report of the Supervisory Board as well as other information on remuneration included in the Annual Report 2016. Furthermore a number of proposals are included: to adopt the 2016 financial statements; to adopt an optional dividend in cash or shares; as well as to discharge the members of the Board of Management and the Supervisory Board, in accordance with Dutch law, for the performance of their respective duties in the financial year 2016. The proposed discharge will take place on the basis of information provided to the General Meeting of Shareholders and other information publically available when the resolution to discharge is adopted.

   It is proposed to distribute a dividend of EUR 0.80 per common share (resulting in a total dividend distribution value of up to EUR 745 million), in cash or shares at the option of the shareholder, against the net income for 2016, in accordance with the company’s present dividend policy.

   If the above dividend proposal is adopted, the shares will be traded ex-dividend as of May 12, 2017 and May 15, 2017 at the New York Stock Exchange and Euronext Amsterdam, respectively. In compliance with the listing requirements of the New York Stock Exchange and the stock market of Euronext Amsterdam, the dividend record date will be May 16, 2017. Shareholders will be given the opportunity to make their choice between cash and shares between May 17, 2017 and June 9, 2017. If no choice is made during this election period the dividend will be paid in cash. On June 9, 2017 after close of trading, the number of share dividend rights entitled to one new common share will be determined based on the volume-weighted average price of all traded common shares Koninklijke Philips N.V. at Euronext Amsterdam on June 7, 8 and 9, 2017. The company will calculate the number of share dividend rights entitled to one new common share (the ‘ratio’), such that the gross dividend in shares will be approximately equal to the gross dividend in cash. The ratio and the number of shares to be issued will be announced on June 13, 2017. Payment of the dividend and delivery of new common shares, with settlement of fractions in cash, if required, will take place from June 14, 2017.

   The newly issued common shares will rank for the dividend for the 2017 financial year and following financial years.

   Dividend in cash is in principle subject to 15% Dutch dividend withholding tax, which will be deducted from the dividend in cash paid to the shareholders. Dividend in shares paid out of net income is in principle subject to 15% dividend withholding tax, but only in respect of the par value of the shares (which value amounts to EUR 0.20 per share). Some shareholders may be eligible to claim a tax credit for or a refund of the tax withheld, if certain conditions are met. Shareholders are advised to consult their tax advisor on the applicable situation both with respect to withholding tax and the possibility to claim a tax credit for or a refund of the tax withheld, as well as the tax due (such as corporate income tax, personal income tax) on the dividend received.
3. Remuneration of the Board of Management

a. Proposal to amend the Remuneration Policy

Over the past few years, Philips executed on major strategic initiatives in the transformation of itself into a focused leader in health technology, including several acquisitions, the successful listing of Philips Lighting and securing a good future for the Lumileds and Automotive businesses. The Supervisory Board proposes to the General Meeting of Shareholders to adopt a new remuneration policy, which has been structured to enable us to retain our talent and compete in the health technology market. To this end, the Supervisory Board has identified a new peer group for remuneration benchmarking purposes, which would align the Board of Management’s remuneration levels closer to equivalent positions in this market. The new peer group consists of 26 companies: AholdDelhaize, AkzoNobel, Alcatel Lucent, ASML, Atos, BAE Systems, Becton Dickinson, Boston Scientific, Capgemini, Danaher, Electrolux, Ericsson, Essilor International, Fresenius Medical Care, Heineken, Henkel & Co, Medtronic, Nokia, Reckitt Benckiser, Roche, Rolls-Royce, Safran, SCA, Siemens (Healthineers), Smith & Nephew, and Thales.¹

The proposed amended Remuneration Policy also includes changes to the long-term incentive targets and flexibility to change the annual incentive targets. These changes are performance based, as they will only be realized if challenging performance targets are achieved, and will increase the proportion of total remuneration that is subject to performance conditions. Furthermore increased levels of mandatory share ownership are proposed.

Please find below the amended Remuneration Policy applicable to members of the Board of Management, proposed to be adopted by the General Meeting of Shareholders.

The remuneration policy in general

The objectives of the Remuneration Policy for members of the Board of Management are in line with that for Philips Executives throughout the Philips group: to focus them on improving the performance of the company and enhancing the value of the Philips group, to motivate and retain them, and to be able to attract other highly qualified executives to enter into Philips’ service, when required.

In determining the Remuneration Policy, the Remuneration Committee ensures that a competitive remuneration package for Board-level executive talent is maintained and benchmarked. The peer group companies selected for remuneration benchmarking purposes 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. These consist of predominantly Dutch and other European companies, plus a minority number (up to 25%) of US based global companies, of comparable size, complexity and international scope.

Total direct remuneration and each main component, such as base salary, Annual Incentive target and Long-Term Incentive target is aimed at or close to, the median of the peer group. To establish this benchmark, data research is carried out each year on the peer companies’ remuneration practices.

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

In order to link individual remuneration to the company’s performance, the remuneration package includes a significant variable part in the form of an annual cash bonus incentive and a long-term incentive in the form of performance shares.

¹ Annual changes to the peer group can be made by the Supervisory Board, for example for reasons of changes in business or competitive nature of the companies involved, which change will be disclosed if it has a substantial impact.
Features of the remuneration for members of the Board of Management

Base salary
Base salary levels and any adjustments made by the Supervisory Board are based on factors including the benchmark peer group data and performance and experience of the individual member. The annual review date for the base salary is typically April 1, and the individual salary levels are shown in the annual report of the company.

Annual Incentive (bonus)
Each year, a variable Annual Incentive can be earned based on the achievement of specific targets as determined by the Supervisory Board. These targets are set at challenging levels and are partly linked to the results of the company (80% weighting) and partly to the contribution of the individual member or team (20% weighting). The Annual Incentive targets will be determined annually at the beginning of the year by the Remuneration Committee on behalf of the Supervisory Board which will consist of: 1) two to four key financial indicators of the company, selected from the following list: profit/margin, revenue/growth, cash flow, shareholder/capital return measures, such as ROA, ROE, ROIC and economic/market value added measures; and 2) individual and/or team targets based on area of responsibility. In addition, the Remuneration Committee will also consider including non-financial targets, as appropriate, that are linked to strategic objectives, such as sustainability, compliance, etc.

The Annual Incentive pay-out in any year relates to the achievements of the preceding financial year versus agreed targets. Metrics will be disclosed ex-ante in the annual report and there will be no retroactive changes to the selection of metrics used in any given year once approved by the Supervisory Board and disclosed.

The on-target Annual Incentive percentage is set at 80% of the base salary (no change) for the President/CEO and 60% of the base salary (no change) for other members of the Board of Management. As of 2018, the Remuneration Committee has the discretion to increase the on-target levels to 100% and 80%, respectively, based on its assessment of competitive market practices. The maximum Annual Incentive achievable is 2 times the on-target levels.

Long-Term Incentive Plan
Members of the Board of Management will be eligible for grants under the Long-Term Incentive Plan applicable from time to time as approved by the General Meeting of Shareholders. The annual award size is set in accordance with the Remuneration Policy by reference to a multiple of base salary. For the President/CEO the annual award size is set at 200% of base salary. For the other members of the Board of Management the annual award size is set at 150% of base salary. This is considered to be broadly a mid-market level when benchmarked against predominantly Dutch and other European companies plus a minority (up to 25%) of US global companies of comparable size, complexity and international scope.

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.

2 In case this proposal would not be adopted by the General Meeting of Shareholders, the annual awards under the Long-Term Incentive Plan shall remain to be governed by the provisions under “Size of Awards” of the Long-Term Incentive Plan of 2013 (120% for the President/CEO and 100% for the other members of the Board of Management).
3 For members of the Board of Management from the United States of America, the size of the award can be doubled.
Mandatory share ownership
The guideline for members of the Board of Management to hold a certain number of shares in the company is 400% of base salary (increase from 300%) for the President/CEO, and 300% of base salary (increase from 200%) for the other members of the Board of Management. The guideline is to retain all after-tax shares and will not require own purchases. The shares granted under the Long-Term Incentive Plan shall be retained for a period of at least 5 years or until at least the end of their contract period if this period is shorter.

Pensions
Due to legislative changes in the Netherlands, effective January 1, 2015 a collective defined benefit pension arrangement applies to all members of the Board of Management. As of this date the following pension arrangement is in place:

- Flex Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of 26.2% up to the maximum pensionable salary of EUR 101,519 (effective January 1, 2016, and subject to annual review by the Dutch Department of Finance). The Flex Plan has a target retirement age of 67 and a target accrual rate of 1.85%;
- A gross Pension Allowance equal to 25% of the base compensation exceeding EUR 101,509;
- A temporary gross Transition Allowance, for a maximum period of 8 years (first 5 years in full; year 6: 75%; year 7: 50%; year 8: 25%) for members of the Board who were participants of the former Executive Pension Plan. The level of the allowance is based on the age and salary of the Board member on December 31, 2014.

The pensions of members of the Board of Management are 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.

Members of the Board of Management have the opportunity to make voluntary after tax contributions into a DC scheme provided through ABN AMRO Pensioenen. Dependents cover for income above EUR 101,509 is provided on an insured basis regardless whether any voluntary contributions are made. Philips covers the cost of this insurance cover.

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 in line with those for other Philips Executives in the Netherlands. They also benefit from coverage under the company’s Directors and Officers (D&O) policies. The company’s policy forbids personal loans to members of the Board of Management.

Services agreements
The members of the Board of Management are engaged by means of a services agreement (overeenkomst van opdracht), as Dutch legislation prohibits a member of the Board of Management to be employed by means of a contract of employment.

The term of the services agreement of the members of the Board of Management is set at four years and, in case of termination by the company, severance payment is limited to a maximum of one year’s base compensation.
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.

**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.

b. Proposal to approve the Long-Term Incentive Plan

Given the strategic transformation of Philips into a focused leader in health technology, the Supervisory Board proposes to revise the Long-Term Incentive Plan (LTI Plan) in a few key areas but, importantly, still only retain the feature of performance shares for the members of the Board of Management. A similar plan will apply to senior management and key employees, who may also be granted restricted share rights.

The proposed changes reflect the new competitive nature in the health technology area via the Total Shareholder Return (‘TSR’) peer group selection, and a revised pay-out schedule that reduces the maximum pay-out opportunity of 200% to the top 5 TSR performing companies (from top 6 in current LTI Plan), and zero pay-out for performance below the 40th percentile performance (comparable to the current plan). The proposal includes Philips within the 20 company peer group, which is in line with market practice, and increases the simplicity and transparency of the pay-out which does not require interpolation.

This proposal focuses on the features of the LTI Plan; the (proposed) LTI award sizes are part of the agenda item on the proposed new Remuneration Policy.

The Supervisory Board will continue to review over time the possibility to move to an ex ante disclosure of Earnings per Share (‘EPS’) performance targets at the start of the performance period.

Please find below the new LTI Plan applicable to the members of the Board of Management, proposed to be approved by the General Meeting of Shareholders.

**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 (i.e., no change from the current LTI Plan).

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 (i.e., no change from the current LTI Plan).
Performance conditions
Vesting of the performance shares is based on two equally weighted performance conditions (i.e., no change from the current LTI Plan):

- 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, 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%:

<table>
<thead>
<tr>
<th>TSR Philips</th>
<th>20</th>
<th>19</th>
<th>18</th>
<th>17</th>
<th>16</th>
<th>15</th>
<th>14</th>
<th>13</th>
<th>12</th>
<th>11</th>
<th>10</th>
<th>9</th>
<th>8</th>
<th>7</th>
<th>6</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay-out %</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>60</td>
<td>80</td>
<td>100</td>
<td>120</td>
<td>140</td>
<td>160</td>
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<td>200</td>
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</tbody>
</table>

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).

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4 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.
The following performance incentive zone applies for EPS (i.e., no change from the current LTI Plan):

<table>
<thead>
<tr>
<th>Adjusted EPS growth Philips</th>
<th>Below threshold</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay-out</td>
<td>0%</td>
<td>40%</td>
<td>100%</td>
<td>200%</td>
</tr>
</tbody>
</table>

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:

\[
50\% \times 120\% + 50\% \times 100\% = 110\% \text{ of the number of performance shares awarded in year 1}
\]

**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.\(^5\)

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\(^5\) In 2017, as an exception, the grant will be made on May 11, subject to approval of the proposed new LTI Plan by the General Meeting of Shareholders.
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 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.6

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.

4. Composition of the Supervisory Board

In accordance with the Articles of Association of the company, the Supervisory Board has made binding nominations regarding the re-appointment of members of the Supervisory Board. The binding nominations are available at the offices of the company and at ABN AMRO Bank N.V. (Gustav Mahlerlaan 10 (HQ 7050), 1082 PP Amsterdam) as well as on the company’s website (www.philips.com/agm) and at the meeting.

a. Proposal to re-appoint Mr J. van der Veer as member of the Supervisory Board with effect from May 11, 2017

Jeroen van der Veer (1947, Dutch)

Mr Van der Veer has been a member of the Supervisory Board since 2009. He is currently also Chairman of the Supervisory Board of ING Group, member of the Supervisory Board of Het Concertgebouw N.V., Royal Boskalis Westminster N.V. and Statoil ASA, and senior advisor to Mazarine B.V.

Mr Van der Veer is recommended to be re-appointed in view of his broad management experience and his knowledge and experience of the financial and economic aspects of international businesses, and the way he fulfils his role as Chairman of the Supervisory Board and the Corporate Governance and Nomination & Selection Committee and member of the Remuneration Committee.

The Supervisory Board is very pleased that Mr Van der Veer remains available as Chairman of the Supervisory Board and proposes to re-appoint him, in line with the Dutch Corporate Governance Code, for the term of four years (effectively until the end of the annual general meeting of shareholders to be held in 2021). He will, subject to his re-appointment, retain his current positions within the Supervisory Board and the committees referred to above.

6 Under the Long-Term Incentive Plan of 2013, these thresholds are: two companies on an annual basis or four companies in total.
b. Proposal to re-appoint Mrs C.A. Poon as member of the Supervisory Board with effect from May 11, 2017

Christine Poon (1952, American)

Mrs Poon has been a member of the Supervisory Board since 2009. She is currently also member of the Board of Directors of Prudential, Regeneron and Sherwin Williams.

Mrs Poon is recommended to be re-appointed in view of her experience, in particular in the healthcare and pharmaceuticals business, and the way she fulfils her role as Vice-chairman and Secretary of the Supervisory Board, Chairman of the Quality & Regulatory Committee and member of the Remuneration Committee and the Corporate Governance and Nomination & Selection Committee.

The Supervisory Board is very pleased that Mrs Poon remains available as a member of the Supervisory Board and proposes to re-appoint her, in line with the Dutch Corporate Governance Code, for the term of four years (effectively until the end of the annual general meeting of shareholders to be held in 2021). She will, subject to her re-appointment, retain her current positions within the Supervisory Board and the committees referred to above.

Upon the proposed re-appointments, the Supervisory Board will consist of seven members, three women and four men, with seven nationalities.

5. Remuneration of the Supervisory Board

Philips is transforming itself into a global health technology company and as a result of this it is competing in a highly competitive market for members of a supervisory board / non-executive members of a one-tier board. In light of this, a benchmarking study was conducted based on the same remuneration peer group as developed for the Board of Management. This peer group consists predominantly of European based companies, with a minority (less than 25%) based in the US. A comparison against equivalent positions in this peer group shows Philips’ current fee levels to be below market norms; the proposals bring the fee levels closer to this position, except for the Chairman role which remains significantly below market norms.

In view of the above, it is proposed to determine the remuneration for members of the Supervisory Board with effect from January 1, 2017, as follows:

a. Annual remuneration for the Supervisory Board: EUR 100,000 for a regular member, EUR 115,000 for the Vice-Chairman and EUR 165,000 for the Chairman (currently EUR 80,000, EUR 90,000 and EUR 135,000, respectively);

b. Annual remuneration for the Supervisory Board’s Audit Committee: EUR 18,000 for a regular member and EUR 27,000 for the chairman (currently EUR 13,000 and EUR 22,500, respectively);

c. Annual remuneration for the Supervisory Board’s Remuneration Committee: EUR 14,000 for a regular member and EUR 21,000 for the chairman (currently EUR 10,000 and EUR 15,000, respectively);

d. Annual remuneration for the Supervisory Board’s Quality & Regulatory Committee: EUR 14,000 for a regular member and EUR 21,000 for the chairman (currently EUR 10,000 and EUR 15,000, respectively); and

e. Annual remuneration for the Supervisory Board’s Corporate Governance and Nomination & Selection Committee: EUR 14,000 for a regular member and EUR 21,000 for the chairman (currently EUR 7,500 and EUR 15,000, respectively).

All other fees and reimbursements remain unchanged.
6. **Authorization of the Board of Management to (i) issue shares or grant rights to acquire shares and (ii) restrict or exclude pre-emption rights**

The proposals to authorize the Board of Management to (i) issue shares or grant rights to acquire shares in the share capital of the company and (ii) restrict or exclude pre-emption rights, are intended to give the Board of Management flexibility in financing the company in the most efficient manner. Furthermore, such authorization gives the Board of Management flexibility in the context of mergers, acquisitions and/or strategic alliances.

Adoption of these proposals by the General Meeting of Shareholders will replace the current authorization of the Board of Management to (i) issue shares or grant rights to acquire shares in the share capital of the company and (ii) restrict or exclude pre-emption rights, which was granted by the General Meeting of Shareholders on May 12, 2016.

7. **Authorization of the Board of Management to acquire shares in the company**

The proposal to authorize the Board of Management (to the extent such authorization is required under Dutch law and the Articles of Association and without prejudice to article 2:98 paragraph 5 of the Dutch Civil Code) to repurchase shares in the share capital of the company intends to allow the Board of Management to cover the company’s obligations related to share-based remuneration, such as those under the LTI Plans and any other employee stock purchase plan under which employees may acquire Philips securities (to the extent such authorization is required under the Articles of Association), and other obligations the company may have. Furthermore, the proposal intends to allow the Board of Management to repurchase shares for capital reduction purposes.

The maximum number of shares the company may acquire and hold, equals 10% of the issued share capital per May 11, 2017. In case of repurchase for capital reduction purposes, the number of shares that the company may acquire and hold will be increased with an additional 10% of such issued share capital. This higher maximum of shares that may be held is intended to allow the Board of Management to execute such share repurchase programs in an efficient and expedited manner.

Adoption of this proposal by the General Meeting of Shareholders will replace the current authorization of the Board of Management to repurchase shares which was granted by the General Meeting of Shareholders on May 12, 2016.

8. **Cancellation of shares**

It is proposed to the General Meeting of Shareholders to cancel any or all common shares in the share capital of the company held or repurchased by the company under the authorization referred to under agenda item 7 resulting in a reduction of the company’s issued common shares. The cancellation may be executed in one or more tranches.

The number of shares that will be cancelled (whether or not in several tranches) shall be determined by the Board of Management, with a maximum of the number of shares that may be acquired in accordance with the authorization referred to under agenda item 7. Pursuant to the relevant statutory provisions, cancellation may not be effected earlier than two months after a resolution to cancel shares is adopted and publicly announced; this will apply for each tranche. The purpose of this proposal is cancellation of common shares held by the company or that will be acquired in accordance with the authorization referred to under agenda item 7, to the extent that such shares shall not be used to cover obligations under share-based remuneration or other obligations.