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Questions & Answers addressed during the Annual General Meeting of Shareholders 2020

Agenda item 2: Annual Report 2019

Beleggersvereniging VEB

Q1	**Is there anything that can be said about a lasting impact on the Connected Care division in terms of demand and competitive positioning (versus competitors like Draeger and Medtronic) as a result of the global health crisis?**
A1	The Connected Care businesses are already strong businesses with leading market positions in among others sleep apnea, hospital ventilators, patient monitoring and connected care informatics. To give an example, we have a market share of more than 40 percent in patient monitoring. There is an increased demand for products and solutions to diagnose, treat and monitor COVID-19 patients, and we are therefore increasing production for such products. We expect that the demand remain high throughout 2020, as we estimate that the number of adult ICU beds needs to double globally.
Q2	**There are some concerns that COVID-19 may impact hospital budgets. Are you worried there might be negative consequences for your Diagnosis & Treatment segment if hospitals need to cut back on spending?**
A2	We have seen that hospitals needed to focus on the critically ill COVID-19 patients and postpone elective procedures in order to prevent the most vulnerable from accidentally contracting COVID-19, and preserve scarce supplies such as masks and gloves. Elective care is not optional care, and we expect that hospitals will need to gradually resume elective procedures. We have not seen any order cancellations, only postponements. At the same time, the total number of adult ICU beds needs to increase globally.
Q3	**Philips depends partly on the production and procurement of products and parts from Asian countries. To what degree are the factories producing products and parts already back at full production? Are you experiencing shipping issues for products and parts due to supply-chain disruptions or stricter regulation for medical supplies in China?**
A3	Our global network of plants and suppliers is almost fully functional, and this also goes for China. We are making the necessary investments and are closely collaborating with our Tier 1 and Tier 2 suppliers to ensure sufficient and uninterrupted supply of components. This also requires the collaboration of all countries involved. Philips continues to engage with governments, health authorities, and relevant industries to safeguard the production expansion of materials, components and final products, as well as their

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	shipment between countries. This is fully in line with the call to action by the International Chamber of Commerce (ICC) and World Health Organization (WHO) in March 2020.
Q4	**Within Personal Health (Oral Health), Philips' power toothbrushes have historically enjoyed strong sales growth in China. As China is first in reopening its economy after the COVID-19 pandemic, are you seeing demand-levels and growth return towards previous levels for dental products? How far are you from pre-virus levels?**
A4	Let me give you the following Personal Health sales data points to describe the consumer demand in China in Q1 2020. In February, we saw a comparable sales decline of 60% to 70%, which resulted in a sales decline of 30% for Personal Health in China in the first quarter. Online sales already showed improvement again in March, which resulted in a sales decline of about 20% toward the end of March. We expect it will take two quarters before we will return to positive sales growth for Personal Health in China.
Q5	**Consumers of Personal Health products in China have increasingly shifted from offline to online (today at 70 percent). If consumers increasingly buy their dental product online, what does that do to the margin profile in China and elsewhere going forward?**
A5	China is a high-end market for us and we are selling many oral care, male grooming and beauty products, and to a lesser proportion, domestic appliances. We see the shift to digital marketing as a positive, and we do not see a significant change for our product mix or our profitability as a result.
Q6	**Philips' management during the Capital Markets Day in November 2018 believed that Personal Health could reach 17 to 19 percent Adjusted EBITA margin in 2020. Is Philips able to give an update on its earlier communicated target(s)?**
A6	Following the portfolio re-alignment in Q1 2019, during which the Sleep & Respiratory Care business was moved from Personal Health to Connected Care, we have updated the Personal Health Adjusted EBITA margin target to 16% - 18%. In 2019, Personal Health's Adjusted EBITA margin already amounted to 16.1%, and we have the conviction that the COVID-19 impact in 2020 will be temporary. We will further elaborate on Personal Health's medium-term performance trajectory in Q4 of this year.
Q7	**Philips is in the process of divesting its Domestic Appliances sub-segment. Can you assure shareholders that your current bargaining position versus suppliers, distributors and in for example advertising won't deteriorate as a result of the divestment?**
A7	Philips' EUR 3.5 billion Personal Health businesses comprising the oral care, mother & child care and personal care businesses are strong with leading market positions, a trusted brand, strong innovations and IP, deep expertise in consumer behavior and consumption patterns, leading in online and local presence. Our negotiating position remains strong as negotiations take place by product category.

Q8	**The divestment of Domestic Appliances assets to a third party with a brand license attached to it could (potentially) result in a devaluation of the valuable Philips brand. How has Philips considered this risk?**
A8	We have done successful divestments in the past and we will apply the same strategy with the divestment of the Domestic Appliances business. Moreover, we have a strong and experienced brand licensing team.
Q9	**The synergies between Philips' D&T and CC segments is understood, as both are business-to-business with hospitals as their main clients. However, we struggle to understand the strategic fit and synergies with the Personal Health segment.** **While Personal Health is an attractive high-margin business, does Philips believe it continues to be the best owner for this business? Wouldn't it be better to sell the entire PH business?**
A9	Philips is a leading provider of integrated solutions to improve people's health across the health continuum from healthy living and prevention, to diagnosis and treatment and home care. The consumerization of healthcare is one of the most persistent trends in healthcare. The Personal Health businesses that focus on oral care, personal care and mother & child care will therefore continue to play an important role in the health continuum through connected products and services to support the health and well-being of people.
Q10	**Diagnosis & Treatment is widely seen as the division with the greatest margin expansion potential (in particular Diagnostic Imaging). Can you give an update on where Philips currently stands in the competitive landscape (market share, etc.) in relation to its main competitors Siemens Healthineers and GE Healthcare?**
A10	Our Diagnosis & Treatment businesses consist of Diagnostic Imaging (#3 position worldwide), Ultrasound (#2 position worldwide, and #1 in cardiology with a market share of about 50%), and Image Guided Therapy (#1 position worldwide with our strong Philips Azurion platform and our smart devices).
Q11	**Siemens Healthineers Imaging has an adjusted operating margin of over 20 percent. How much headroom do you see for margin improvement for D&T going forward?**
A11	The comparison does not entirely hold up because of differences in scale and portfolio composition. Following the portfolio realignment in Q1 2019, we targeted a 14%-16% adj. EBITA margin for Diagnosis & Treatment for the 2019-2020 period. I would like to emphasize that Diagnosis & Treatment comprises Diagnostic Imaging, Ultrasound and Image Guided Therapy, and that the latter two business already have industry leading profitability. With our new CT and MRI portfolio, we are also improving the profitability of Diagnostic Imaging. Our targets remain, but we have given a new trajectory on how we expect the year will unfold. We cannot be more precise at this time, given the volatility and uncertainty. Assuming we can convert our existing order book for the Diagnosis & Treatment businesses as planned and elective procedures normalize, we expect modest growth for the Diagnosis &Treatment businesses in 2020.

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Q12	**Philips' track record on healthcare acquisitions is positive (Spectranetics and Volcano). Given the solid balance sheet position (net debt/Adjusted EBITDA 1.4x), are you actively looking for acquisitions now that valuations might be more favorable?**
A12	We will continue to follow our balanced capital allocation policy. Philips has a strong balance sheet and robust liquidity position. However, in view of the possible continued impact of the COVID-19 pandemic in 2020, Philips has taken a number of measures to preserve cash and safeguard its liquidity position. We temporarily consider cash preservation as the main priority, but acquisitions remain possible.
Q13	**Analysts' estimates of the valuation of DA range from 2 to 5 billion euros. This would bring net debt down substantially. Does Philips have a target earmarked for these proceeds, and looking forward, in what business segment would you consider an acquisition to be most preferable?**
A13	We will reinvest the proceeds of the transaction in the company to further expand our product, services and solutions portfolio.
Q14	**Philips in the past used to provide detailed information on its net operating capital (NOC) by segment. In order to improve investor insights in your capital allocation decisions, would Philips going forward be willing to share this information with shareholders?**
A14	In our Q4/FY and Q2/HY quarterly reports, we provide the Net Operating Capital (NOC) at Group level. Given the composition of NOC for an operating company as Philips, which includes Group debt, we believe that it is not meaningful to provide NOC at the segment level. Instead, each quarter we provide the Working Capital and Inventories per segment in the Investor Relations presentation.
Q15	**In our Annual "priority letter", the VEB encourages companies to provide a detailed overview of the risks and opportunities related to climate change and the impact on the business model.** **As a result of the current (corona) crisis, there is a risk that companies pay less attention to climate change, which makes the impact of climate change worse and mitigating actions more expensive.** **The VEB expects companies to continue to provide insights into the risks and opportunities of climate change and the (long-term) impact on the business model.** **The VEB therefore asks companies to explain the impact of the current crisis on their commitment to climate action and the companies' climate-related targets.**
A15	Next to our Sustainability reporting in the Annual Report 2019, in which we also elaborate on our ambition to become carbon neutral in our operations by 2020, we have published a report in line with the recommendations of the "Taskforce on Climate-related Financial Disclosures" (TCFD) for

	a number of years. In this report, we review the risks and opportunities related to climate change for Philips. Our strategy is a Sustainable strategy, and we see that this resonates well with our customers, suppliers, investors, governments, NGOs and our employees. We have an ambitious program called “Healthy people, Sustainable planet” which ends later this year. We will announce our 2025 program during the second half of 2020 in which we step-up our ambitions to deliver on the three “Sustainable Development Goals” that we focus on – SDG 3 (health), 12 (responsible manufacturing and consumption) and 13 (climate action). Therefore, you do not have to be afraid that Philips might step-down on its Sustainability ambitions.

Vereniging van Beleggers voor Duurzame Ontwikkeling Q&A

Q16	**Philips participates in the CDP supply chain program, which asks suppliers to identify and report on Climate risks and opportunities. 80% of your suppliers confirmed to manage Climate governance at Board level and 64% committed to emission reduction targets. In the Climate strategy of companies, physical aspects of Climate change are often overlooked. Does Philips ask for reporting related to physical risks of Climate change? If yes, do you have a good understanding of Climate risks with your critical suppliers? If not, can you commit to spend more attention to that in 2020?**
A16	Philips has asked its key suppliers since 2011 to report their emissions and Climate strategy to the CDP Supply Chain program. We are proud to have been included in the 2019 Supplier Engagement Leadership Board and we see clear value in the program. With regard to physical Climate risks we can report that both for our own sites as well as those of critical suppliers we do analyze these, jointly with specialists of our insurance service providers. This is part of our so-called “Business Continuity Management”.
Q17	**VBDO is enthusiastic about the Philips Supplier Sustainability Performance (SSP), in which collaboration, continuous improvement and encouraging suppliers and even peers. Within the program Philips defined various indicators for suppliers to manage compliance (AR, 203-204). VBDO is next to compliance of suppliers, interested in the work circumstances of your suppliers on which you reported in detail in the past. Are qualitative and quantitative indicators related specificly to work circumstances (e.g. wages and working hours) part of the feedback to suppliers? Is Philips willing to report on these next year, either as a company or within the RBA?**
A17	Wages, working hours, but also topics such as a safe work environment and “collective bargaining” are part of our feedback to our suppliers. In the past we reported at a detailed level but we focus now on the overall improvement of our supply chain on the mentioned indicators related to work circumstances, but also on improvements related to for example environmental impact and the health and safety of the employees working at the respective suppliers. Next, we focus on the number of people in the supply chain impacted by our program, as that is obviously

	what counts. In 2020 we will evaluate again the most material topics of our Supplier Sustainability Program and report on these.
Q18	**VBDO encourages companies to analyze possible gender pay-gaps and report in a transparent way to stakeholders as an addition to inclusion and diversity reporting. In practice, women are often still underpaid compared to male employees. In the European Union women are being paid on average 16% less than men. Is Philips willing to report in the future on its gender pay-gap at different levels in the organization?**
A18	Over the past years, Philips studied gender pay differences in a number of countries and areas (in some cases due to local legislation) and found no structural inequality. In the coming years Philips will scale up and fully harmonize its approaches to obtain detailed oversight of the topic. We will then also review our way of reporting.

NN Investment Partners, who also represented Eumedion

Q19	**We believe that the report of the Audit Committee could provide more information. The Audit Committee should among others reflect on the Key Audit Matters. Could the next Audit Committee report contain such reflection, and could the Audit Committee also reflect on the main topics in the management letter sent by the external auditor?**
A19	Every year, we aim for informative and meaningful reporting by the Supervisory Board and its committees. We will consider your input when we write our next reports.

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Q20	**The VEB calls for additional transparency during the 2020 mid-year reporting (Q2 close) comparable to an annual close, i.e. including disclosure on forecasts and insights into financing and goodwill recoverability. The VEB further calls for mid-year reporting to be reviewed by an external auditor (issuing a formal Review Opinion), including a statement of going concern from the external auditor.**
A20	Our external auditor EY is already involved in all of our quarterly and mid-year external reporting, for example by inquiring with senior management on significant developments as well as performing analytical review procedures over the quarterly consolidated information intended for publication. Although a formal audit or review in accordance with Dutch or PCAOB (US) auditing standards is not performed on interim reporting, EY is involved throughout the year in the audit process of the

	company and does provide a private report to the Audit Committee covering significant transactions and an update on the findings of their audit work performed to date. As a company, we also carefully consider going concern and the Treasury department presents the latest cash forecast and credit rating update every quarter to the Audit Committee. Accordingly, the Audit Committee of the Supervisory Board believes that the risks underlying the question from the VEB are adequately covered and does not see value in the additional expense of obtaining an external audit review opinion on our quarterly and interim results.
Q21	**The COVID-19 crisis has serious consequences on the effort and involvement of executives and non-executives. The topic of overboarding has become even more relevant. The VEB calls for executives to limit their other positions to one. The VEB also request non-executives to see which of their other activities can be terminated.**
A21	The number of other positions of the members of our Board of management and Supervisory Board is within the limits of the law and relevant best practices. We of course make sure, also in these special circumstances, to devote sufficient time and attention to our duties.

Agenda item 3: Remuneration of Board of Management and the Supervisory Board

Beleggersvereniging VEB

Q22	**Is the Supervisory Board considering to use its discretionary power to reduce or slash all or any variable payment components for 2020, for instance, because the pay-for-performance relation is weaker than ever in the current turbulence?**
A22	We will assess the impact of COVID-19 on our 2020 business results as part of our regular business performance review early 2021. As you know our variable remuneration is based on performance and so Annual Incentive pay-outs over 2020 will be impacted accordingly.
Q23	**The list of annual incentive criteria from which the Supervisory Board can select targets, among others consists of shareholder/capital return measures (such as ROA, ROE, ROIC). The VEB can understand the inclusion of ROIC, but for what reasons would Philips want to opt for - in our view - flawed measures such as ROA and ROE?**
A23	The intention of this clause in the Remuneration Policy is to provide the opportunity to select the best fitting shareholder/capital return measure if and when the Supervisory Board deems such inclusion in the Annual Incentive relevant. We will continue to discuss our Annual Incentive set-up and criteria in our regular engagement with investors and other stakeholders. As prescribed by the proposed Remuneration Policy, all Annual Incentive criteria and categories will be disclosed ex-ante in the remuneration report.

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Q24	**Among its STI criteria Philips also lists 'cash flow'. Are you able to specify the definition of this cash flow metric. Is this the currently used 'free cash flow' as reported in the annual report (page 70), or is there another definition for this 'cash flow'?**
A24	The reported Free Cash Flow performance indeed forms the basis of this definition. However, in line with the assessment of our EPS performance for the Long-Term Incentive Plan, the Supervisory Board considers adjustments to the FCF numbers for Annual Incentive Plan purposes on an annual basis. The aim of these adjustments is to accurately represent the actual performance of management. For example, we could adjust out benefits we would see due to tax reform during a given a year.
Q25	**A number of individual criteria are also listed (customer results, quality & operational excellence, strategy execution, people & organization, and sustainability). Can the Supervisory Board give some more color on what these metrics will look like?**
A25	These performance categories will include a number of underlying objectives that are tied to the area of responsibility of the respective Board of Management member. The performance categories be disclosed ex-ante in the remuneration report and there will be no retroactive changes to the selection of categories used in any given year once approved by the Supervisory Board and disclosed. Realized performance against the categories and underlying targets will be assessed by the Supervisory Board and these realizations will be disclosed ex-post in the remuneration report.
Q26	**Has the Supervisory Board considered using the ROIC-metric as one of its financial performance criteria in the Long-Term Incentive Plan instead of adjusted EPS?**
A26	Yes, the ROIC criterion was discussed extensively as part of our stakeholder engagement. Our investors generally were favorable about including such a criterion. They were however generally of the opinion that such inclusion should happen once feasible within the strategy of the company. Furthermore, they appreciated that inclusion of a return criterion could be done via the Annual Incentive or the Long-Term Incentive. We have made the conscious decision to have the possibility of operating a return criterion in the Annual Incentive.
Q27	**Could the Supervisory Board explain how this proposal – i.e. additional fees for ad-hoc committees – has come about and what ‘activities’ and ‘other circumstances’ would qualify.**
A27	We do not have variable pay for the Supervisory Board. This proposal was already part of our previously approved fee structure and levels and is in this sense not ‘new’. It is in no way intended to provide any form of variable compensation to Supervisory Board members. If the Supervisory Board deems this necessary, an ad hoc committee can be formed as per the policy. We have a track record of being conservative in using this option. The only ad-hoc committee that has ever been installed, was the committee that governed the separation of Philips Lighting (Signify). As we cannot predict the future we cannot provide you with a full list of possible circumstances that would result in the establishment of an ad-hoc committee .

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Q28	**The number of performance shares that is granted, is determined based on the average closing price of the Philips share on the day of publication of the quarterly results and the four following trading days. Would the Supervisory Board, taking into account the exceptional circumstances due to COVID-19 and the impact this has on share prices of listed companies across the globe, consider to already explicitly express the intention to the Philips Board members that at vesting (3 years from now) the final number of shares that will vest, will be discretionary reduced when it would be apparent that the share price at grant was in a temporary low caused by COVID-19?**
A28	Our remuneration policy is conservative and linked to performance. We do not have the impression that there may be undue advantage gained in these exceptional circumstances. Of course, the Supervisory Board will always look at remuneration decisions holistically and will also do so three years from now and use discretion where appropriate.