

Questions & Answers submitted for the Annual General Meeting of Shareholders 2021

Eumedion

<p>Q1</p>	<p>Recently, an article was published on Hillhouse Capital, and the fact that they may be related to the exploitation of Uyghurs in Xinjiang. Could you please indicate whether any due diligence was done regarding the buyer of DA, and whether human rights have been part of such due diligence? Has there been any contact with Hillhouse Capital, and what have been your findings?</p>
<p>A1</p>	<p>We have of course performed due diligence, and Hillhouse Capital has no investments in the referenced company that is associated with the situation in the Xinjiang province.</p> <p>I would like to add that Hillhouse Capital is a renowned, international investment fund with a long-term focus on growth. Their capital comes from 'Ivy League' universities such as Yale, Princeton and the University of Pennsylvania, among others. They have deep expertise in online sales channels and digital transformation of which Domestic Appliances will definitely be able to benefit.</p>
<p>Q2</p>	<p>Over recent years, we discussed diversity within the company, in particular gender diversity. Which specific actions were taken during the past year to promote the flow of women to managerial positions? Did you also look into your hiring policies/practices?</p>
<p>A2</p>	<p>Philips is making good progress on gender diversity, especially at higher corporate grades in the organization – at lower grades we already had a quite diverse workforce. We have various programs and trainings in place, which start with the hiring of new staff (unconscious bias training). We are also better able to hire and retain female talent. We also would like to stress that gender is just one dimension of diversity.</p> <p>Gender diversity in senior positions increased to 27% in 2020. This is more than the 25% goal for 2020, and indicates that we are on the right track, but we realize quite well that we are not there yet, and thus need to continue to reach a much higher percentage.</p>

Q3	<p>The RemCo decided to adjust the EPS targets. Can you explain why these adjustments have been made?</p>
A3	<p>Our Remuneration Policy and LTI Plan allows us to use Adjusted Earnings per Share (EPS) as part of our measurements. The adjustments that we make to EPS include changes due to accounting principles, non-recurring events that were not foreseen at time of target setting, and generally events that were deemed to be outside the control of management. In 2018 and 2019 these principles led to downward adjustments to EPS of 16 and 30 cents respectively, while in 2020 it led to an upward adjustment of 16 cents.</p> <p>In 2020, the vast majority of our adjustments were related to the impact of divestments and acquisitions. The Remuneration Committee and the Supervisory board make highly disciplined decisions around these adjustments, and for example, we did not include any adjustments relating to the pandemic.</p>

Beleggersvereniging VEB

Q4	<p>It is conceivable that protectionism could turn out to be a structural development, initiating a process of deglobalization. For a multinational company like Philips, it is important to guard against this scenario.</p> <p>a. To what extent does this cause Philips to build more (local) factories, hold more stocks or work with more suppliers?</p> <p>b. If Philips is going to increase buffers, to what extent will such inefficiencies weigh on adjusted EBITA margin and ROIC over time?</p>
A4	<p>We also see geopolitical tensions and expect they will stay with us for some time and, to the extent possible, have catered to that in our manufacturing and supply chain strategy. We have moved to a more regional manufacturing set-up, with about 30 factories spread across North America, China/APAC, Europe and to a certain extent Latin America.</p> <p>I would like note that our network of suppliers still is a worldwide network. And we can see with the semiconductor situation, a shortage is arising.</p> <p>There is no impact on EBITA margin and ROIC.</p>

<p>Q5</p>	<p>The financial markets assign significantly higher valuations to companies where a large portion of revenue is recurring annually ("recurring revenue").</p> <p>a. What can Philips do to boost growth in the proportion of recurring revenue? b. The share of "sales over time" as a percentage of sales has been increasing in recent Years at both Diagnosis & Treatment and Connected Care. Where does Philips expect this percentage to end up in five years for both units?</p>
<p>A5</p>	<p>We expect the sales from solutions and recurring revenue streams to continue to grow double-digits, to reach at least 50% of Group revenues by 2025 (currently already above 40% in 2020). We do that through increasing focus on solutions that combine systems, AI & Software, Services and Smart devices, with long-term contracts. One example I can mention are integrated suites hospitals use to perform minimally invasive operations.</p>
<p>Q6</p>	<p>Philips will sell its home appliances branch to Chinese investment firm Hillhouse.</p> <p>a. Does Philips see opportunities to make larger acquisitions with these proceeds? b. To what extent would Philips like to expand its position in medical devices (particularly radiotherapy)?</p>
<p>A6</p>	<p>We have already allocated a large part of those proceeds. In recent months, we strengthened our Image-Guided Therapy business with the acquisition of Intact Vascular, and our Connected Care business with the acquisitions of BioTelemetry and Capsule Technologies. These acquisitions represented a total of more than 3 billion euros. And we have a EUR 1.5 billion share buyback program underway, which will result in approximately EUR 750 million cash-out by 2021.</p> <p>Philips is first and foremost an organic growth company. The higher growth expectation is the result of our investments in R&D. If good acquisition candidates come along, we are ready.</p>

<p>Q7</p>	<p>In the goodwill section of the annual report, at the Image-Guided Therapy CGU, the growth assumptions for both the initial and extrapolation forecast periods have been revised downward.</p> <p>a. Why have the expectations for Image-Guided Therapy been adjusted downward?</p> <p>b. Have expectations for Spectranetics and/or Volcano changed negatively from the time of acquisition?</p>
<p>A7</p>	<p>This is due to a change in the method of calculating growth forecasts, over a four-year period instead of a three-year period. Without that changed methodology, the growth forecast would have remained the same. As we indicated at our most recent Capital Markets Day last year, we expect our IGT sales to have high-single-digit growth by 2025, and to achieve an Adjusted EBITA margin in excess of 20%.</p> <p>Our IGT business is doing very well, and this business was already growing at double-digit rates in Q1 2021. And this is all driven by the acquisitions of Volcano and Spectranetics. Furthermore, it is important to note that this business currently has a mid-teens Adjusted EBITA margin, whereas Volcano and Spectranetics were making losses when we acquired them. They exemplify outstanding acquisitions.</p>
<p>Q8</p>	<p>Last year, Philips acquired US-based BioTelemetry for \$2.8 billion (or 6.4 times sales).</p> <p>a. How does Philips define "value creation" when making acquisitions and when do you expect BioTelemetry's ROIC to be above the cost of capital?</p> <p>b. How does BioTelemetry's value creation potential compare to its ambition to achieve a mid to high teens ROIC by 2025?</p>
<p>A8</p>	<p>We believe the acquisition of BioTelemetry fits very well with our business strategy. BioTelemetry is growing strongly with a very attractive profitability profile. The remote patient monitoring market segment is growing fast and will continue to grow fast. BioTelemetry is the market leader and the only profitable player in this market.</p> <p>BioTelemetry has a leading services platform for patients with heart rhythm disorders. We are now going to roll that out outside the U.S., and expand the application to other diseases and conditions. We expect the BioTelemetry business to continue to grow at double-digit rates and the Adjusted EBITA margin to further improve in 2021 and to be more than 20% by 2025. Within 5 years, ROIC will exceed WACC.</p>

Vereniging van Beleggers voor Duurzame Ontwikkeling Q&A

Q9	<p>VBDO wants to compliment Philips on its circularity policy and the leadership role that it takes. Philips has set clear objectives and makes a distinction between more and less valuable circular processes (reuse and recycling, respectively), a distinction that not many companies report on as of yet. This year, VBDO is particularly curious about Philips' critical raw materials use and policy. Critical raw materials are often processed into products with a longer lifespan, which lowers the recycle and reuse percentages, among others emphasized by the European Raw Materials Alliance (ERMA). This initiative of the European Commission advocates the reduction and recycling of critical raw materials. Does Philips track the use of critical raw materials in its products? If not, does the company have the ambition to do so in the coming years?</p>
A9	<p>Philips aims to “Close the Loop” for all healthcare equipment offered to us by 2025. We are also a founding partner of the European Partnership for Responsible Minerals. At the same time, our EcoDesign efforts focus sustainable material usage.</p> <p>Today, we do not yet monitor Critical Raw Materials in our products. We do plan to investigate the Critical Raw Materials further and specify as part of the EcoDesign program.</p>
Q10	<p>Philips has been taking responsibility for working conditions in its supply chain for many years through its "Beyond Auditing" program. VBDO is curious to learn more about the overall results of the Beyond Auditing program that has been running since 2016. In the coming years, could Philips report on how successful the program has been so far? For example, by anonymously reporting on suppliers who have been in the program since the beginning, and how their supplier score or number of code violations has decreased? Or about suppliers categorized in the zero-tolerance category, that after mitigation measures actually reported a lower percentage of such events through the program? In addition, in the next annual report, could Philips share anonymous case studies to illustrate how it achieves impact with zero tolerance suppliers that fall short of expectations?</p>
A10	<p>In the Annual Report 2020 (p.265), we included a new table that already shows a break-down of year on year improvements of suppliers active in the program, including details on the categories with biggest improvements.</p> <p>For the first time in 2020, we disclosed the number of Zero Tolerances found, including to which categories they belong and how many have been resolved in the same year (p.264).</p> <p>We will consider the suggestions from VBDO to heart and will also consider the case study, on an anonymous basis, on how certain Zero Tolerances have been resolved and how specific suppliers improved their performance.</p>

<p>Q11</p>	<p>Inequality in gender, ethnicity and other factors is not only a risk in the work environment, but also a risk in medical treatments. This is demonstrated, for example, by the fact that women (and other minorities) have historically been significantly underrepresented in cardiovascular disease clinical research and clinical trials, which still has an effect on the diagnosis and treatment of these diseases in the respective groups. VBDO appreciates the fact that Philips is aware of this problem. Does Philips have a policy related to equality in medical practices, in its own product development and in its value chain, and how is the company pursuing its advocacy role to raise awareness of discrimination in healthcare?</p>
<p>A11</p>	<p>We are certainly aware of this. We believe that our products until now have had no bias, but as we will increasingly use AI in the future, big data, it definitely is a relevant topic. We have therefore formulated and published our 'ethical principles on Artificial Intelligence' and to which we adhere to prevent that any bias or discrimination is integrated in these kinds of applications.</p>

GVC Gaesco Gestión

<p>Q12</p>	<p>Your CO₂ 4% reduction objective (2017-2025) for the entire value chain seems limited compared to your own operations CO₂ reduction objective. What are the challenges you see to accomplish a bigger reduction there?</p>
<p>A12</p>	<p>I would like to clarify that we have on the one hand an annual sales growth of 5%-6% in the coming years which in fact increases the CO₂ emission related to our products. On the other hand, we are reducing by creating more energy efficient products. The sum of those two factors results in a 4% reduction of the absolute CO₂ emission over our entire value chain by 2025 compared to 2017.</p> <p>We were the first Health technology company to have our emission targets approved by the Science Based Target initiative, a collaboration between the CDP, the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).</p> <p>We want to be completely transparent about it. Most of our footprint is in the use-phase of our products. And therefore our EcoDesign efforts will lead to energy efficiency in our products, which then results in a reduction of Scope 2 and 3 emissions.</p>

<p>Q13</p>	<p>Would it be possible to have more detail on the Sustainability objectives set up to determine the 10% remuneration for the CEO on the Long Term Incentive Plan?</p>
<p>A13</p>	<p>These 10% sustainability objective was first designed into the LTI plan beginning in 2020 for the three year period ending in 2023. Philips believes that sustainability performance will improve the company’s performance as a whole.</p> <p>Therefore, it has included performance criteria based on three Sustainable Development Goals as defined by the United Nations (no. 3, 12 and 13) in the LTI Plan.</p> <p>Annually, we set targets for Lives Improved, the operational carbon footprint, and – to accelerate the transition to a circular economy – Circular revenues, zero waste to landfill and Closing the Loop.</p> <p>For the purpose of this target setting process, our sustainability strategy is transposed into 3-year targets based on our latest projections and insights. As there is a certain degree of uncertainty embedded in these numbers, we will use a ‘target range’ rather than a fixed target as we assess performance against these particular metrics.</p>