

Questions & Answers submitted for the Annual General Meeting of Shareholders 2022

NN Investment Partners and APG Asset Management

Q1	<p>Brokers have flagged a Canadian study from Dec-21 in the American Journal of Respiratory and Critical Care Medicine that indicate there was no higher risk of cancer among OSA patients using a Philips positive airway pressure (PAP) device compared to those using a PAP device from other manufacturers or those patients who didn't receive PAP treatment. How valuable is this article in building a safety profile of the devices? What other evidence is there to give us an idea of how serious this issue is, and how many patients may be affected by it?</p>
A1	<p>This is indeed a very encouraging study and we have also mentioned this in our March 10, 2022 press release in which we gave an update on the remediation in the US. Additionally, as stated in our December 2021 update, testing results for the first-generation DreamStation devices indicate that the emitted volatile organic compound concentrations are within safe exposure limits and are not typically anticipated to result in long-term health consequences for patients.</p> <p>We continue to conduct further research and testing to more fully understand and scope possible patient risk. We expect to provide an update later this quarter.</p>
Q2	<p>In the pre-AGM talks that we had you clarified that you had signaled 2 products within connected care that you were talking about with the regulator. Now at the end of March the British medical regulator sent out a warning message on Philips' ventilators. Is this indeed then 1 of the 2 products you mentioned? In these talks it was stated that the scope and the impact of these products were much better understood than for the apneu devices. Is that still the case? Do you have an indication of how big the legal liability will be?</p>
A2	<p>In the fourth quarter 2021, Philips recorded a provision in relation to two anticipated voluntary recalls in small business lines in the Connected Care portfolio. In February, we started the V60 ventilator product family recall and HeartStart HS1 AED pads recall.</p> <p>Regarding the V60 product family recall, it is too early to comment or speculate about Philips Respironics' potential legal exposure.</p>
Q3	<p>In its Form FDA-483 of November 2021 the FDA makes the observation that the management of Philips Respironics was aware of potential foam degradation issues concerning CPAPs, BiPAPs, and Trilogy ventilators at least since 31 January 2020, or earlier, and implemented no further corrective actions until April 2021. Was the Philips Board of Management aware of these issues and if so, what actions did the Philips Board of Management undertake towards the Philips Respironics executives?</p>
A3	<p>Royal Philips Board of Management became aware of the issue and its potential significance in the first quarter of 2021 and took adequate action. This resulted in the issuance of the field safety notice and start of the remediation actions in the first half of 2021.</p>

	<p>We have onboarded new top management in Sleep & Respiratory Care. We also further strengthened Quality & Regulatory Affairs leadership for the Group, Connected Care and Sleep & Respiratory Care, and added resources to strengthen specific capabilities.</p>
Q4	<p>We welcome Philips’ new aim to commit at least 50% of its suppliers to science-based targets for CO2 emission reduction by 2025. You will urge your suppliers to all get a review of their targets from the SBTi. Can you explain what the process will be at the moment that the supplier indicates that he cannot or does not want to meet this wish. In your explanation can you also mention the deadlines?</p>
A4	<p>If we want to deliver on our Science Based Targets – which are very ambitious – we need to address the full value chain including our own operations, our supply chain and the use-phase of our products. About 39% of our full value chain emissions originate in our supply chain.</p> <p>We address the emissions in our supply chain in various ways, including helping our suppliers to become more energy-efficient through our Supplier Development program. We are pleased that already 31% of our suppliers (in spend terms) have committed to the science-bases targets.</p> <p>Many suppliers see the benefits of implementing energy efficiency improvements, as this saves costs. Moreover, in many cases our suppliers also deliver goods to other companies that are stepping-up on Climate Action – by meeting our demands, they also meet those of other companies.</p> <p>So far, our comprehensive Supplier Development program has been successful for many years, and Philips has been recognized for this. Especially our larger suppliers are long-term, trusted partners with shared values and shared incentives. We will further build on this.</p>
Q5	<p>What is the opinion of the external auditor on the decision of the Supervisory Board to recognize 50% of the sales impact of € 498 million in the 2021 book year for remuneration purposes although the customer had not obtained control of the goods at that moment in time? Did the external auditor provide reasonable assurance to the contents of the remuneration report as she did with the other facts and figures in the 2021 annual report? Did the auditor make some observations with respect to the remuneration report and if so what were these observations and were they communicated with the audit and/or remuneration committee?</p>
A5	<p>As explained in the Remuneration Report, the Supervisory Board used an analysis of delayed sales, in particular to underpin its decision to adjust the realization of AI and LTI performance metrics. This approach was of course only taken for remuneration purposes. It is not relevant at all in relation to revenue recognition for financial reporting purposes or the external audit performed by EY. As a different matter, EY did confirm, as required by Dutch law, that the Remuneration Report includes all required information.</p>

Beleggersvereniging VEB

<p>Q6</p>	<p>The optimistic tone of Philips on the recall during consecutive presentations of the financial results as well as in the media since April last year is difficult to reconcile with the severe observations made in the inspection report of the FDA.</p> <p>a. How does Philips explain this discrepancy?</p> <p>b. Should investors be concerned that it will turn out that Philips downplayed the problems with its sleep devices?</p>
<p>A6</p>	<p>The answer to question a) is: Philips has always taken this matter very seriously. The recall is a complex undertaking, because of the sheer volume of devices to be remediated and the outreach to every individual patient,</p> <p>In 2021, we had to make decisions based on limited information. Even though we didn't know everything yet, for transparency and patient safety, we took the initiative and assumed the worst-case scenario with respect to the possible health risks.</p> <ul style="list-style-type: none"> • We voluntarily issued a field safety notice and started the remediation actions. • We started a comprehensive test and research program to better assess the possible health risks • We have and still are evaluating the issues that contributed to the recall. We are working through corrective measures, and continue to work with the competent authorities around the world. <p>The answer to question b) is: When Royal Philips Board of Management became aware of the issue and its potential significance, we took adequate action. This resulted in the issuance of the field safety notice and start of the remediation actions.</p> <p>We had to make decisions based on limited information. As we learned more about the various aspects of this complex and multifaceted issue, the patient outreach became more effective, and our discussions with the relevant competent authorities progressed, we have adjusted our efforts accordingly.</p>
<p>Q7</p>	<p>The inspection report of the FDA explicitly states that Philips was, or should have been, aware of the problems with its sleep devices much earlier than April last year.</p> <p>a. At what specific date was the management board of Philips aware of the issues with the devices?</p> <p>b. In the FDA report, the observation is made that management of Respiroics was aware of the issues since at least 31 January 2020, or earlier. Is the conclusion fair that Respiroics did not adequately and timely inform Philips' management?</p> <p>c. At what point should Philips' management board reasonably have been informed about the issues with the devices?</p>

<p>A7</p>	<p>The answer to question a) through c) is: In prior years, there were limited complaints related to foam degradation, which Philips Respironics evaluated and addressed on a case-by-case basis. Potential issues relating to the emission of volatile organic compounds began to surface only more recently. When Royal Philips Board of Management became aware of the issue and its potential significance in the first quarter of 2021, we took adequate actions leading to the recall notification in the first half of 2021.</p> <p>We have and still are evaluating the issues that contributed to the recall. We are working through corrective measures, and continue to work with the competent authorities around the world.</p>
<p>Q8</p>	<p>The provision concerning the product recall was increased in three steps from 250 million euros on 26 April 2021 to almost 900 million euros in total at the Q1 2022 results.</p> <p>a. How could Philips be so wrong in its judgement and estimate of the provision? b. Are these misestimates and gradual increases indications that Philips' management is not in control? c. How confident is Philips that the current provision is sufficient?</p>
<p>A8</p>	<p>The answer to questions a) and b) is: The issue is complex because of the sheer volume of devices to be remediated and the outreach to every individual patient. As we learned more about the various aspects of this multifaceted issue, the patient outreach became more effective and our discussions with the relevant competent authorities progressed, we have adjusted our efforts accordingly.</p> <p>The answer to question c) is: We are now 11 months into the recall, and we have made significant progress across the board. For example, the number of registrations is at 5.3 million, expected to level off to 5.5 million, the production capacity is already at more than three times the normal capacity, and we have almost produced half of the replacement devices and repair kits. Moreover, the patient communication has become more effective and we will maintain the current intensity of patient and customer communication activities.</p>
<p>Q9</p>	<p>Philips' most prominent competitor in sleep care, Resmed, is very outspoken about the company's recall. Resmed recently mentioned that it is unlikely Philips' market share will be restored. Resmed also noted Philips will probably not be fully back in the sleep care market before March or even June 2023.</p> <p>a. Should investors be concerned that (dissatisfied) patients stop using Philips devices and permanently switch to competitor's products? b. What is the likelihood that a customer that switched to the competitor will come back to Philips when the issues are solved? c. How confident is Philips that it will be able to restore its market shares, and could it give an indication of the timeline?</p>

	<p>d. Could Philips indicate when the sleep business will be fully operational again?</p>																														
A9	<p>The answer to questions a) through c) is: As there are two major players, we expect DMEs, doctors and other healthcare providers to be supportive of our brand, as they will want to make sure there are two strong players, and not just one.</p> <p>A recovery of our market share is likely to take a few years, but we see strong pent-up demand in the market for our sleep therapy devices. Please note that growth will not just come from the replacement market, but also from new patients as sleep apnea is significantly underdiagnosed across the world.</p> <p>The answer to questions d) is: In terms of engaging DMEs/customers and filling the pipeline, we expect to resume the commercial sleep device activities in Q4 2022.</p>																														
Q10	<p>Management acknowledged multiple headwinds in the presentation of the Q1 2022 results, such as the China lockdowns, supply chain issues, and the Ukraine situation. Yet, Philips reiterated its full-year financial guidance. Why does Philips believe the 2022 guidance is still realistic given the company-specific issues as well as the macro-climate?</p>																														
A10	<p>There is a lot of uncertainty and volatility in the world. The performance range that we communicated in January of 3 – 5% CSG represents a certain buffer in case some risks would materialize. The top of the range is supported by our strong order book. The China Covid-19 situation and Russia-Ukraine war are new risks compared to January. The China Covid-19 situation is not quantifiable at the moment, while the risks related to the Russia-Ukraine war has not materialized yet. If despite our mitigating actions, the risks materialize during the year and the net impact will exceed EUR 500 million, then we would start testing the lower end of our CSG range for the full year.</p>																														
Q11	<p>The input variables used for the annual impairment test for the Sleep & Respiratory Care cash-generating unit have been adjusted compared to the variables used during the half-year results (when there was a triggering event).</p> <p>Cash generating unit: Sleep & Respiratory Care</p> <table border="1"> <thead> <tr> <th>Report</th> <th>Goodwill</th> <th>initial forecast (sales)</th> <th>extrapolation (sales)</th> <th>terminal (sales)</th> <th>WACC</th> </tr> </thead> <tbody> <tr> <td>Annual report 2021</td> <td>2.031</td> <td>9.2%</td> <td>5.0%</td> <td>2.5%</td> <td>9.2%</td> </tr> <tr> <td>Half-year report 2021</td> <td>1.950</td> <td>-4.8%</td> <td>5.0%</td> <td>2.5%</td> <td>9.3%</td> </tr> <tr> <td>Annual report 2020</td> <td>1.915</td> <td>-1.2%</td> <td>4.4%</td> <td>2.5%</td> <td>9.7%</td> </tr> <tr> <td>Annual report 2019</td> <td>2.071</td> <td>8.1%</td> <td>4.8%</td> <td>2.5%</td> <td>9.7%</td> </tr> </tbody> </table> <p>a. How could management justify the change in assumption for sales growth in the initial forecast period (first three years of the model) of minus 4,8 percent in the 2021 half-year results to the 9.2 percent used in the most recent impairment test?</p> <p>b. How does a growth rate assumption of 9.2 percent compare to an analyst consensus growth rate of 2.9 percent for the period 2022-2024 for the segment Connected Care?</p>	Report	Goodwill	initial forecast (sales)	extrapolation (sales)	terminal (sales)	WACC	Annual report 2021	2.031	9.2%	5.0%	2.5%	9.2%	Half-year report 2021	1.950	-4.8%	5.0%	2.5%	9.3%	Annual report 2020	1.915	-1.2%	4.4%	2.5%	9.7%	Annual report 2019	2.071	8.1%	4.8%	2.5%	9.7%
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<p>A11</p>	<p>a. For impairments tests performed throughout the year, that is Q1, Q2 and Q3, Philips calculates the sales CAGR using the previous full year sales.</p> <p>This means that for the Half year 2021 test and CAGR calculation, the FY 2020 sales of EUR 2.7 billion was used. From EUR 2.7 billion in 2021 to around EUR 2.2 billion in 2024 represents a - 4.8% CAGR.</p> <p>For the full year 2021 test and CAGR calculation, the FY 2021 sales of EUR 1.7 billion was used. From EUR 1.7 billion in 2021 to around EUR 2.2 billion in 2024 represents a 9.2% CAGR.</p> <p>b. The assumption of 9.2% CAGR is specific to the S&RC business and represents growth from a much lower base than normal. We will provide further color on the mid-term performance of the Connected Care businesses during the Summer.</p>
<p>Q12</p>	<p>The valuation of goodwill for the CGU Sleep & Respiratory Care is a key audit matter. A key observation of EY is that – in short – the management assumptions and estimates are ‘considered reasonable’. Why does EY believe a 9.2 percent growth rate in the initial forecast period is reasonable and not aggressive?</p>
<p>A12</p>	<p>EY: The valuation of goodwill inherently requires management to make assumptions and estimates; including expected growth rates, but also to various other assumptions. Our procedures included testing the operational effectiveness of controls and assessing and evaluating assumptions and data used by management. As part of our assessment, we for example compared assumptions to external data. The growth rate in the initial forecast period is furthermore impacted by the comparative period and management provided further insights in the answer to the previous question.</p>
<p>Q13</p>	<p>It is mentioned in the 2021 annual report that the Supervisory Board performed a self-evaluation. Several suggestions were made to further strengthen the Supervisory Board going forward. Among others, the following topics were mentioned: ‘the key regulatory regimes applicable to the company’, ‘manufacturing and suppliers (including in the context of quality and patient safety)’, and ‘the overall control structure and reporting lines’.</p> <p>a. In the 2020 annual report, however, not one topic that came out of the self-evaluation was related to quality controls, regulatory regimes, or patient safety. Is it fair to say the Supervisory Board was surprised by the malfunctioning of Philips’ quality systems?</p> <p>b. In the 2020 annual report it is stated ‘the functioning of the Supervisory Board committees was rated highly’. How does the Supervisory Board rate its own functioning in 2021?</p>
<p>A13</p>	<p>The Supervisory Board fully embraces the importance of quality and regulatory matters and oversees the consolidation and standardization of Philips’ Quality Management Systems. While we believe our processes have become more robust, the Philips Respiration recall obviously shows that the continuous improvement of our quality processes remains a top priority.</p>

	<p>The self-evaluation showed that the Supervisory Board, including the Quality & Regulatory Committee, continues to be a well-functioning team, is of an appropriate size and benefits from expertise, diversity and international representation. We are focused on continuous improvement, and we explained in our report which topics we will give specific attention in 2022.</p>
<p>Q14</p>	<p>In an interview with Belgian financial daily De Tijd dated 5 February 2022 Van Houten stated that Philips ‘is making more long-term agreements with our suppliers, in order to try to build in a little more certainty’.</p> <p>a. How does this statement reconcile with Remco's view that supply chain issues are beyond management control?</p> <p>b. Shouldn't Philips have taken a more proactive approach to securing its supplies and build in more certainty at an earlier stage?</p> <p>c. The adjustments made by Remco with respect to the supply chain disruptions are different for the STI (50 percent of delayed sales were added back in the calculation) and the LTI (75 percent of sales). This gives the impression that this was an arbitrary process. Could Remco explain the substantial difference in adjustments for the LTI versus the STI?</p>
<p>A14</p>	<p>The answer to question a) is: We always had long-term agreements and orders with our Tier-1 suppliers. Nevertheless, we were increasingly challenged with semiconductor suppliers deeper in our supply chain (the Tier-2 or up to Tier-4 supplier in our supply chain) that increased lead times from 12-20 to over 52 weeks, or were unable to give any visibility on e-component availability and delivery times beyond 3 months, or even de-committed orders on short notice.</p> <p>The answer to questions b) is: We have been working through the global supply chain headwinds for some time now, but in the first half of 2021 our ability to mitigate supply risks was higher. During the first half of the year, inventory started depleting due to our strong growth, and then global supply challenges intensified, making the inventory situation very tight.</p> <p>The answer to question c) is: When considering these adjustments, a number of factors were taken into account:</p> <ul style="list-style-type: none"> • The duration of the plan, i.e. 1 or 3 years • The measurement, i.e. point to point LTI assessment • The balance between internal and external causes for the delay in production, i.e. any adjustment needs to be partial: <ul style="list-style-type: none"> ○ For the Annual Incentive, the Supervisory Board considered that an adjustment of 50% of the revenue loss following from the component shortage can be taken into account. ○ For the LTI, a ‘point-to-point’ assessment is taken into account, so successes in previous year will not influence the final assessment. Furthermore, the duration is 3 years and as such the component shortage occurring last year would have a very disproportionate effect on the performance assessment.

	Therefore, it was decided to apply an adjustment for 75% of the revenue loss following from the component shortage.
Q15	<p>The remuneration report states that the adjustments made for the 2021 variable pay are taken into account when setting the target levels for the STI targets for 2022.</p> <p>a. Could Remco disclose the threshold, at target and maximum levels with respect to the three financial STI-targets for 2022 (profit margin, revenue growth and cash flow)?</p> <p>b. Does Remco believe the targets are ambitious enough?</p>
A15	<p>The answer to question a) is: The Supervisory Board considers that ex-ante publication of targets may harm the company's interests as they may be commercially sensitive. For that reason, the exact Annual Incentive target (and target range) is not disclosed ex-ante, which is in line with external market practice. I would like to add that our disclosure practice is among market best practice.</p> <p>The answer to question b) is: On a forward-looking basis, we expect a catch-up effect of delayed sales in 2022. This is incorporated in our external guidance for 2022. The target is set above the midpoint of external guidance, meaning that delayed sales are not allowed to ease our targets in any way.</p>

Vereniging van Beleggers voor Duurzame Ontwikkeling Q&A

Q16	<p>VBDO was pleased to read Philips' GRI table for Biodiversity, as this indicates that Philips has assessed its impacts on biodiversity in the different countries and areas that the company is operating in. VBDO appreciates this effort and is wondering what further actions Philips takes towards biodiversity conservation in collaboration with the company's peers. VBDO is therefore curious to learn whether Philips, with the company's leading role in the Responsible Business Alliance (RBA), is considering to partner up with other members of the RBA to work on biodiversity preservation?</p>
A16	<p>Let me start by saying that Philips' direct biodiversity impact is limited, as VBDO also concluded from our disclosures: We have a limited number of sites that occupy only limited space, and also our environmental impact is limited – thanks to our long-standing environmental programs.</p> <p>Nevertheless, in 2021, we started a study on closing the loop on materials at site level. That also includes biodiversity assessments. Once the results have been analyzed, we will develop an improvement program, and we may partner with like-minded companies to address bigger challenges, like biodiversity restoration and conservation.</p>
Q17	<p>VBDO appreciates Philips' transparency on Green/EcoDesigned revenues (AR, p.246), and the company's aim towards reducing environmental impact over the total life cycle of EcoDesigned products (AR, p. 50). VBDO is, however, curious to learn more about CO2-emissions reduction of Philips' EcoDesigned products. As 4% of global CO2 emissions are</p>

	<p>caused by the healthcare sector, VBDO believes that Philips can make a big impact here. Does Philips know what the specific impact reductions are from implementing its EcoDesigned principles, and if yes, can Philips report on this in order to act as a role model and show other parties that there are concrete benefits from implementing these EcoDesigned principles?</p>
A17	<p>We have assessed the impact of our portfolio per individual product, and this was included in our “Environmental Profit & Loss account” that you will find in the Annual Report, and also in our submission to the Science-Based Target initiative. This organization approved our reduction targets in 2018, and we were the first healthcare company to achieve this.</p> <p>The anticipated regulation by the EU (that is the European Sustainability Reporting Standards), the International Sustainability Standards Board (ISSB), and the SEC will make the Scope 3 use-phase disclosures mandatory. We aim to disclose this ahead of the date required by the EU.</p>
Q18	<p>VBDO compliments Philips with the company’s human rights due diligence approach and thinks that Philips could serve as an example for a lot of other companies. VBDO is therefore curious to learn whether Philips would consider helping peers improve their due diligence processes in order to collectively improve the lives of more people working in the technology industry. What is Philips currently doing to train the company’s peers in their due diligence processes and would Philips please consider reporting on this?</p>
A18	<p>Philips is working actively to make its Human Rights due diligence approach available to the wider industry via a partnership with the Responsible Business Alliance.</p> <p>In addition, Philips participates in working groups of various multi-stakeholder initiatives that are focused on improving due diligence practices, and Philips is further sharing its best practices via public speaking engagements, round tables, and other platforms.</p> <p>We aim to accelerate positive change throughout our supply chain, and intend to make our advocacy activities around supply chain engagement more explicit in our next Annual Report.</p>

Rev. Al Sharpton from National Action Network

Q19	<p>What is the diversity plan in terms of employment for employees and senior executive positions at Philips?</p>
A19	<p>Workplace culture remains a priority at Philips and the company has been recognized for its ongoing investment in building diverse workplaces. Our leadership teams create tangible action plans to provide support and increase representation for our under-represented employees.</p> <p>Our approach for increasing representation of minority talent at all levels, including senior-level positions, includes several overlapping initiatives, for example:</p>

	<ul style="list-style-type: none"> • In North America, for example, our commitment to increasing our minority talent representation at senior levels to reach and/or exceed market availability. • We have piloted a mentoring program with our Black high-performing talent within North America – and we are launching two additional cohorts in 2022.
Q20	What is the diversity plan in terms of adding minority members to the board of directors at Philips?
A20	<p>Philips has in place a Diversity Policy to ensure that the Supervisory Board and the Executive Committee have a sufficient diversity of views and the expertise needed for a good understanding of current affairs, and risks and opportunities related to the company’s business.</p> <p>According to this policy, the selection of candidates for appointment to the Supervisory Board and the Executive Committee will be based on merit. With due regard to this, the company aims to fill vacancies by considering candidates that bring a diversity of, amongst others, age, gender, and educational and professional backgrounds.</p> <p>The Supervisory Board’s aim is that the Supervisory Board and the Executive Committee comprise members with a European and a non-European background, at least four different nationalities, and that they comprise at least 30% male and at least 30% female members.</p>
Q21	What is the diversity plan in terms of procurement and contract opportunities with Black and minority-owned businesses?
A21	<p>As a health technology company - we are diligent with regards to which suppliers we work with, only bringing the best on board and always with quality and safety at the forefront.</p> <p>Philips has just approved a new initiative to ensure procurement and contract opportunities for minority-owned businesses – our 2022-2023 Supplier Diversity Program. This program is sponsored by Philips’ Chief Operating Officer and Executive Committee member, who will lead our active investment in this important program.</p> <p>We are also having a dialogue with our major supplier partners on the diversity of the project teams they provide to us. We believe that working with our major supplier partners on their own diversity, as well as the diversity of their supply base is a way we can exponentially drive impact in addition to how we direct our own spend.</p>
Q22	What is the diversity plan in terms of advertising with Black and minority-owned media companies?
A22	<p>Our marketing and media investments take into account the B2B and B2C audiences of our healthcare products and solutions, including the impact they make on Black, Hispanic, Asian and LGBTQ communities.</p>

	<p>This approach guides programmatic decisioning that includes spend with Black and minority-owned suppliers and media. We make targeted investments in emerging publishers and Black and minority self-publishing entrepreneurs like influencers and creators that have an authentic voice and follower-base.</p> <p>We also make media investments in non-minority owned media who have large minority audiences as these media partners reach these communities effectively and employ large percentages of minority talent.</p>
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