



Agenda and explanatory notes for the Extraordinary General Meeting of Shareholders 2018

To be held at the **Hilton Amsterdam Hotel**, Apollolaan 138, Amsterdam on Friday, **October 19, 2018 beginning at 9.30 hours CET.**

Agenda items

1. Proposal to appoint Dr. A. Marc Harrison as member of the Supervisory Board with effect from October 19, 2018
2. Proposal to determine the remuneration of the members of the Supervisory Board

Explanatory notes

1. In accordance with the Articles of Association of the company, the Supervisory Board has made a binding nomination regarding the appointment of Dr. A. Marc Harrison as member of the Supervisory Board.

Dr. Harrison was born in the United States (1964) and has the American nationality. He is currently President & Chief Executive Officer of Intermountain Healthcare, a not-for-profit health system based in Salt Lake City (Utah) and the largest healthcare provider in the Intermountain West. Under Dr. Harrison's leadership, Intermountain is transforming healthcare through best clinical and operational practices designed to advance its mission of helping people live the healthiest lives possible.

In his career Dr. Harrison has gathered in-depth knowledge of the health system and healthcare industries in North America as well as globally. His expertise will be invaluable, in particular in view of Philips' transformation to a company focused on healthcare technology.

Agenda items indicated as "proposal" are voting items. This agenda with the explanatory notes, the binding nomination and other documents relevant for the Extraordinary General Meeting of Shareholders 2018 have been published on the company's website (www.philips.com/egm). The meeting documents are also available, free of charge, at the offices of the company (Amstelplein 2, 1096 BC Amsterdam), at ABN AMRO Bank N.V., Corporate Broking (Gustav Mahlerlaan 10 (HQ 7212), 1082 PP Amsterdam, telephone +31 20 344 2000 and email: corporate.broking@nl.abnamro.com), and will be available at the meeting.

A specialist in pediatric critical care, Dr. Harrison held leadership positions at Cleveland Clinic prior to joining Intermountain in 2016. He most recently served as Chief of International Business Development for Cleveland Clinic, developing and implementing their international strategy, and as CEO of Cleveland Clinic Abu Dhabi, where he oversaw the establishment of 12 Institutes, five centers of excellence, and more than 30 medical and surgical specialties. Dr. Harrison also served as Cleveland Clinic's Chief Medical Operations Officer, involving oversight of a broad range of clinical operations worldwide, and as Chairman of Pediatric Critical Care.

Dr. Harrison holds no shares in Royal Philips.

The Supervisory Board proposes to appoint Dr. Harrison as a member of the Supervisory Board per October 19, 2018. Members of the Supervisory Board may be (re-)appointed for the term of four years as laid down in the Articles of Association. In line with the Dutch Corporate Governance Code, Dr. Harrison's term of appointment will expire at the end of the Annual General Meeting of Shareholders to be held in 2022.

Upon the proposed appointment, the Supervisory Board will consist of nine members, three women and six men, with eight nationalities.

2. Prior to the 2017 Annual General Meeting of Shareholders, the Supervisory Board withdrew the proposal on the remuneration of the Supervisory Board based on consultations with shareholders that made it clear that further discussions were needed to attain a broader consensus on this topic. Since then, we have continued our discussions with shareholders in multiple countries, including the Netherlands, the United Kingdom, France and North America (which constitute the largest part of our ownership base; please refer to page 221 of our Annual Report 2017 for more details). In addition, we have met with institutional advisory organizations. The positive feedback from these meetings has resulted in the Supervisory Board submitting the underlying proposal.

As context, over the past several years Philips has been transforming itself into a leading, solutions-driven health technology company. This transformation involved fundamental changes in the nature and complexity of our business as well as our competitive landscape and has led to an improved growth and profitability profile. More specifically, in the past 18 months, we strengthened our strategic platforms through targeted acquisitions, introduced several breakthrough innovations and secured multiple long-term strategic partnerships. We also deconsolidated Signify (formerly named Philips Lighting) as from the end of November 2017 and further decreased our shareholding to 18% in February 2018. Philips' transformation has been recognized through a reclassification of our shares to the Health Care sector by the FTSE Group's ICB, STOXX and MSCI indices, as well as through a change of our GICS classification.

During the coming years the company will continue to transform itself, and may actively investigate and/or pursue mergers, acquisitions and alliances in complex technology areas which requires Board knowledge and experience that is in limited supply and requires a global approach to resource.

Given the expiring terms of some Supervisory Board members over the next few years and the importance to strengthen our Supervisory Board with talent from the healthcare technology sector, we view this as important context to review fee levels and position them at a level to compete in the global market. We note that the current Supervisory Board composition (seven of the eight members are non-Dutch) is evidence of the prevalence of Philips to hire globally. Furthermore, based on the specific role requirements of Supervisory Board members and the experiences of our current members who also sit on single and dual-tier boards of other companies, we believe the recruitment market is the same for single and dual tier directors. This is also recognized by governance rules and limitations on single and dual-tier board memberships in various countries, which do not distinguish between the two board structure types.

In order to support the aforementioned changes and our ever-increasing focus on our integrated solutions business, the underlying proposal is aimed at attracting and retaining international Supervisory Board members of the highest caliber and with experience and expertise relevant to our health technology businesses. A key determinant in the proposal is the fee levels paid in the compensation peer group that was presented to the 2017 Annual General Meeting of Shareholders in the context of the Remuneration Policy for the Board of Management.¹ 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. We consider it important to apply a consistent company-wide approach and thus use the same peer group for our Supervisory Board. In addition, we feel the representation of US companies in the peer group is appropriate as three of the current eight members of the Supervisory Board are based in the US. The peer group compensation data is shown in the table below and is based on publicly available information retrieved from annual reports and/or proxy statements.

Fee type	Philips fee levels		Overview of compensation peer group Supervisory Board / Board of Directors fees		
	Current	Proposed	25th percentile	Median	75th percentile
Supervisory Board					
Chairman	€ 135,000	€ 155,000	€ 185,000	€ 285,000	€ 445,000
Member	€ 80,000	€ 100,000	€ 70,000	€ 100,000	€ 160,000
Audit Committee					
Chairman	€ 22,500	€ 27,000	€ 22,000	€ 29,000	€ 34,000
Member	€ 13,000	€ 18,000	€ 15,000	€ 20,000	€ 31,000
Remuneration Committee					
Chairman	€ 15,000	€ 21,000	€ 18,000	€ 21,000	€ 30,000
Member	€ 10,000	€ 14,000	€ 11,000	€ 17,000	€ 27,000
Quality & Regulatory Committee					
Chairman	€ 15,000	€ 21,000	€ 17,000	€ 20,000	€ 23,000
Member	€ 10,000	€ 14,000	€ 13,000	€ 15,000	€ 18,000
CG and Nomination & Selection Committee					
Chairman	€ 15,000	€ 21,000	€ 17,000	€ 20,000	€ 23,000
Member	€ 7,500	€ 14,000	€ 13,000	€ 15,000	€ 18,000

¹ The peer group consists of 25 companies: Ahold Delhaize, AkzoNobel, ASML, Atos, BAE Systems, Becton Dickinson, Boston Scientific, Capgemini, Danaher, Electrolux, Ericsson, Essilor International, Essity (formerly SCA, company split), Fresenius Medical Care, Heineken, Henkel & Co, Medtronic, Nokia, Reckitt Benckiser, Roche, Rolls-Royce, Safran, Siemens Healthineers, Smith & Nephew, and Thales.

The proposal is also to be seen against the background of the growing intensity of the involvement of the Supervisory Board in the company's matters, driven by the rapidly changing technology and regulatory environment. This, as well as the complexity of the topics discussed by the Supervisory Board in its meetings, results in an increase of the time involved in particular in the preparation of the meeting by its individual members, the amount of work done outside the formal meetings and the operational visits conducted.

In view of the above, it is proposed to determine the remuneration for members of the Supervisory Board at broadly median market levels with effect from October 1, 2018, 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 155,000 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);
- 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. In addition, we are proposing to review fee levels in principle every three years in order to monitor and take account of market developments and manage expectations from our key stakeholders.

