February 26, 2020

TCFD recommendations

To help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities, the Financial Stability Board established an industry-led task force: the Task Force on Climate-related Financial Disclosures (TCFD). The Task Force was asked to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks.

In this document we aim to follow the recommendations of the TCFD.

The overview may not, however, include all the risks that may ultimately affect Philips. Some risks not yet known to Philips, or currently believed not to be material, could ultimately have a major impact on Philips' businesses, objectives, revenues, income, assets, liquidity or capital resources.

Governance Disclose the organization's governance around climate-related risks and opportunities.	
Recommended Disclosure a) Describe the Board's oversight of climate-related risks and opportunities. **Recommended Disclosure b)** Describe management's role in assessing and managing climate- related risks and opportunities.	At Philips, climate-related risks are managed the same way as other risks described in Section 6, Risk Management. For more information on the Board's oversight of risk, please refer to Section 6.1 Our approach to risk management (Risk management governance). Risks are assessed at least annually. Please refer to Section 6.1 Our approach to risk management, 6.2 Risk factors, 6.3 Strategic risks, 6.4 Operational risks, 6.5 Compliance risks, and 6.6 Financial risks. Next, please refer to our public 2019 CDP submission.
Strategy Disclosures on the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	
Recommended Disclosure a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. **Recommended Disclosure b)** Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. **Recommended Disclosure c)** Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	**Risks – Section 6.3 Strategic risks - Philips may be unable to adapt swiftly to changes in industry or market circumstances** Fundamental shifts in the health technology industry, such as the transition to digital and increased emphasis on sustainability, may drastically change the business environment in which Philips operates. The inability of Philips to recognize these changes in good time, adjust its business models, or introduce new products and services in response to these changes or other circumstances such as pricing actions by competitors, could result in a material adverse effect on Philips' business, financial condition and operating results. **Risks – Section 6.4 Operational risks - If Philips is unable to ensure effective supply chain management we may be faced for example interruptions or rising raw material prices, which could negatively impact our competitiveness in markets.** Philips is continuing the process of creating a leaner supply base with fewer suppliers, while maintaining dual/multiple sourcing strategies where feasible. This strategy requires close cooperation with suppliers to enhance, among other things, time to market and quality. In addition, Philips is continuing its initiatives to replace internal capabilities with less costly outsourced products and services. These processes may result in increased dependency on external suppliers and providers. Although Philips works closely with its suppliers to avoid supply-related problems, there can be no assurance that it will not encounter supply problems in the future or that it will be able to replace a supplier that is not able to meet demand sufficiently quickly to avoid disruptions.

....continues from page 1

Shortages or delays could materially harm Philips' business. Most of Philips' activities are conducted outside of the Netherlands, and international operations bring challenges. For example, Philips depends partly on the production and procurement of products and parts from Asian countries, this dependence constitutes a risk that production and shipping of products and parts could be interrupted by regional conflicts, health events such as coronavirus, a natural disaster or extreme weather events resulting from climate change. A general shortage of materials, components or subcomponents as a result of conflicts, health events, natural disasters or weather events or other unanticipated events also pose the risk of fluctuations in prices and demand, which could have a material adverse effect on Philips' financial condition and operating results.

Philips purchases raw materials, including so-called rare earth metals, copper, steel, aluminum, noble gases and oil-related products, which exposes it to fluctuations in energy and raw material prices. In recent times, commodities have been subject to volatile markets, and such volatility is expected to continue. If Philips is not able to compensate for increased costs of raw materials, reduce reliance on such raw materials or pass on increased costs to customers, then price increases could have a material adverse impact on Philips' results. In contrast, in times of falling commodity prices, Philips may not fully benefit from such price decreases, since Philips attempts to reduce the risk of rising commodity prices by several means, including long-term contracting or physical and financial hedging.

Opportunities – Resource efficiency
For a sustainable world, the transition from a linear to a circular economy is essential. A circular economy aims to decouple economic growth from the use of natural resources and ecosystems by using these resources more effectively. At Philips, it is a driver of innovation in the areas of material, component and product re-use, as well as new business models such as system solutions and services, for example Monitoring as a Service where Philips may retain ownership of the patient monitors. We have set ambitious targets to guide this journey. By 2020, we want 15% of our revenues to come from circular products and services, and we want to send zero waste to landfill in our own operations.

At the beginning of 2018, we added a pledge to take back and repurpose all the large medical systems equipment (e.g. MRI and CT scanners) that our customers are prepared to return to us, and to extend those practices across our professional portfolio by 2025. In 2019, after pilot projects in Italy and Greece, we successfully rolled-out of a global program to achieve our ambitious circular economy goal, together with metrics to monitor progress.

Opportunities – Change in customer requirements
Through our EcoDesign process we aim to create products and solutions that have significantly less impact on the environment during their whole lifecycle. Overall, the most significant improvements have been realized in energy efficiency, although there was also growing attention for hazardous substances and recyclability in all segments in 2019, the latter driven by our Circular Economy initiatives.

Opportunities – Change in regulatory requirements
At Philips, we see climate change as a serious threat. Therefore, we are taking action to rethink our business models and decouple economic growth from the impact we have on the environment. This will not only benefit the environment, but will positively impact social and economic aspects as well.

As part of the 'Healthy people, Sustainable planet' program, launched in 2016, Philips aims to be carbon neutral in its operations by 2020 and source all our electricity usage from 100% renewable sources as our commitment to SDG 13.

In 2019, our operational carbon footprint resulted in 706 kilotonnes of carbon dioxide-equivalent (CO2-e), a decrease of 10% compared to 2018, mainly driven by increased use of electricity from renewable sources and a significant reduction in air freight. As a result of our carbon neutrality program, some of our emissions have been compensated via carbon offsets, resulting in a total of 266 kilotonnes carbon dioxide-equivalent (CO2-e).

We ran various scenarios with carbon prices ranging between EUR 50 and EUR 200 per ton CO2-e and concluded that none of these scenarios comprise a material risk to Philips. Next, please refer to our public 2019 CDP submission.

As a result, Philips believes it is better positioned than other actors in the industry to meet regulatory requirements stemming from the Paris agreement.

Risk Management

Disclosures on how the organization identifies, assesses, and manages climate-related risks.

Recommended Disclosure a) Describe the organization's processes for identifying and assessing climate-related risks.	Refer to section 6.1 Our approach to risk management of the Annual Report 2019 for a description of our vision and objectives on risk, our risk management governance, and our risk appetite. Next, please refer to our public 2019 CDP submission.
Recommended Disclosure b) Describe the organization's processes for managing climate-related risks.	Refer to sections 13.1.9 Sustainability Governance, 13.3.9 Supplier indicators – Carbon emissions in our supply chain and 13.4.3 Sustainable Operations.
Recommended Disclosure c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Refer to section 6.1 Our approach to risk management of the Annual Report 2019 for a description of our vision and objectives on risk, our risk management governance, and our risk appetite which includes climate-related risks.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended Disclosure a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	Refer to sections 5.2 Environmental performance (Environmental impact), 5.2.1 Green Innovation, 5.2.2 Green Revenues, and 5.2.3 Sustainable Operations (Carbon footprint and energy efficiency)
Recommended Disclosure b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Refer to sections 5.2.3 Sustainable Operations (Carbon footprint and energy efficiency) and 13.4.3 Sustainable Operations.
Recommended Disclosure c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	Refer to sections 5.2.3 Sustainable Operations (Carbon footprint and energy efficiency), 13.1.5 Programs and targets and 13.4.3 Sustainable Operations.