

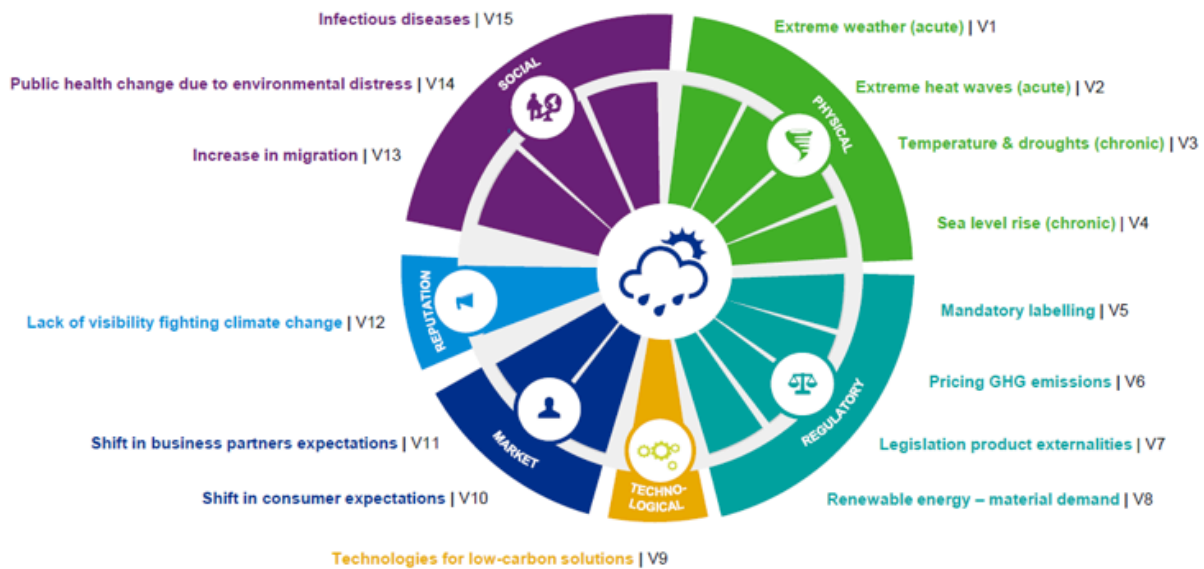


TCFD recommendations 2020

Philips recognizes the importance of identifying, assessing and mitigating climate-related risks to ensure business continuity and resilience. 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 2020, we stepped up our TCFD efforts, as we worked together with a multi-disciplinary team from Business Continuity Management, Enterprise Risk Management, Real Estate, Innovation & Strategy and Sustainability to assess the risks and opportunities for Philips related to climate change. Together with KPMG, we developed two scenarios – a 2-degrees and a 4-degrees global warming scenario by 2030 – and assessed the impact on our supply chain, our own operations and our customers.

We identified 15 climate-related vulnerabilities: four physical, four regulatory, one technological, two market, one reputational and three social vulnerabilities that each could lead to positive or negative impacts, if not managed.



Most vulnerabilities are applicable to our supply chain, our own operations and our customers. The conclusions from our analysis will be incorporated in, for example, our sourcing strategy. The impact of future carbon pricing on Philips was deemed non-material due to the carbon neutrality of our operations by the end of 2020.

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, Environmental, Social & Governance (ESG) are the three key dimensions within which a company's approach to doing business responsibly and sustainably, and its overall societal impact, are defined. They give expression to an increasingly widely held view – that companies that hold themselves accountable to their stakeholders and increase transparency will be more viable, and valuable, in the long term.

ESG, including climate-related risks and opportunities, are a responsibility of the Executive Committee. The Risk Management Support Team, consisting of experts on various categories of enterprise risk, supports the Executive Committee through regular analysis of the enterprise risk profile and enhancement of the risk management framework. Climate-related risks and opportunities 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).

Our approach toward assessing and managing climate-related risks and opportunities is driven by Philips' ESG commitments, which include the ambition to reduce CO₂ emissions in our entire value chain in line with a 1.5 °C global warming scenario (based on Science Based Targets). Please refer to section 5.2 Philips' ESG commitments for more details.

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 of the Annual Report 2020.

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.

Philips has assessed climate change as a major threat to society and human health. According to research from the Potsdam Institute for Climate Impact research, over 4% of global CO₂ emissions are caused by the Healthcare sector, thereby making climate change also very relevant for our customers – posing both a risk and an opportunity to our business.

Our Green and Circular Products and Solutions portfolio and our innovations address the challenges related to the transition to a low-carbon economy.

In 2020, Philips achieved its target to become carbon-neutral in its operations. Through our ambition to reduce CO₂ emissions in our entire value chain in line with a 1.5 °C global warming scenario (based on Science Based Targets) we are reducing our exposure to transition risks, like changing legislation and carbon pricing. We will continue more extensive risk assessments to provide more insights into transition risks.

We developed a 2- and a 4-degrees global warming scenario in 2020 and assessed the impact on our supply chain, our own operations and our customers. We believe that our exposure to short-term physical risks at our sites is limited as supported by our assessment. The impact on our value chain is still being assessed for the medium and long term. The impact on our customers, both healthcare providers and consumers, can be significant.

Risks – Section 6.3 Strategic risks of the Annual Report 2020 - 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 ESG (Environmental, Social and Governance), may drastically change the business environment in which Philips operates. If Philips fails to recognize these changes in time, adjust business models, or introduce new products and services in response to these changes, or fails to meet its ESG commitments, this could result in a material adverse effect on Philips' business, financial condition and operating results.

Risk response: Philips performs ongoing analyses of markets and competitive developments including financials, market shares, M&A, investments and partnerships, product introductions and innovations, patents and hiring trends. Philips monitors and maintains relationships with policy makers and regulatory and standard-setting bodies to stay on top of changes in policies, legislation, regulation and other external standards. Our consultative customer partnerships and services business models, through which we establish long-term strategic partnerships with customers, including leading practitioners in healthcare, provide us with a deep understanding of their (future) needs. Philips continuously invests significantly in R&D in innovation and new products and services; our Innovation 2025 transformation program is accelerating the innovation ambitions across all elements of the Philips Business System. We have raised our ESG commitments towards 2025; examples of enablers are our practices defined by the Philips Business System and 100% of product offerings being in line with EcoDesign requirements.

Risks – Section 6.4 Operational risks of the Annual Report 2020 – If Philips is unable to ensure effective supply chain

Philips is continuing the process of creating a leaner supply base and is continuing its initiatives to replace internal capabilities with less costly outsourced products and services. These processes may result in increased dependency on a concentration of external suppliers. 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, causing disruptions or unfavorable conditions.

Shortages or delays could materially harm Philips' business. Most of Philips' operations are conducted internationally, which exposes Philips to challenges. For example, Philips depends partly on the production and procurement of products and parts from Asian countries; the production and shipping of products and parts could be interrupted by events such as geopolitical changes (e.g. US-China relations), regional conflicts, pandemics (e.g. COVID-19), natural disasters or extreme weather events caused by climate change. Such changes may lead to adverse impacts on global trade levels and supply chains. COVID-19, more specifically, imposes supply chain challenges due to shifts in demand, need for production capacity adjustments and impacts on the safety of the environments for production, field service, installations, R&D.

A general shortage of materials, (sub) components also poses 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. 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.

Risk response: Philips is expanding its 'Design for Excellence' approach to the full value chain, which includes designing products in such a way that supply dependencies are minimal.

Philips is optimizing its integrated supply chain organization, forecasting analytics, supplier base and manufacturing footprint to enable agile responses to large and rapid shifts in demand and supply and a changing geopolitical risk landscape.

Philips has deployed an integrated supplier risk management framework to assess and manage suppliers from various perspectives such as strategic fit, financial stability, operational performance and quality, sustainability, compliance and location.

Philips conducts various assessments and develops response strategies to events potentially impacting its supply chain, such as changes in trade agreements (e.g. Brexit), natural disasters, emerging markets volatility, and pandemics (e.g. COVID-19). Philips has deployed a global Business Continuity Management System, which is aligned to, and certified against, the ISO standard for Business Continuity.

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Philips manages the risk of rising commodity prices by several means, including long-term contracting and keeping physical inventories. Philips closely monitors price developments and takes pricing action where appropriate.

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 2025, we want 100% of our product offerings to be in line with EcoDesign requirements, 25% 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 2020, we successfully closed the loop on all large medical systems returned to us.

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. In 2020, Green Revenues increased to 71% of sales, a record level for Philips. 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 2020, 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.

During the COP 21 United Nations Climate Conference in Paris in 2015, we committed to become carbon-neutral in our operations, pursue all efforts to reduce our operational emissions, source all our electricity from 100% renewable sources, and to offset all unavoidable emissions by year-end 2020. We are proud to confirm that as of 2020, Philips is carbon-neutral in its operations.

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.

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.

The management of climate-related risks is integrated into our regular risk management process and included in strategic and operational risks (refer to previous section).

Recommended Disclosure b) Describe the organization's processes for managing climate-related risks.

Refer to section 6.1 Our approach to risk management of the Annual Report 2020 for a description of our vision and objectives on risk, our risk management governance, and our risk appetite.

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 sections 13.1.9 Sustainability Governance, 13.4.7 Supplier indicators – Green supply chain program and 13.3.3 Sustainable Operations of the Annual Report 2020.

Refer to section 6.1 Our approach to risk management of the Annual Report 2020 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

We report our climate-related metrics and targets, like operational carbon footprint and energy efficiency, but also Green and Circular Revenues, in the Annual Report 2020 as well as via www.results.philips.com.

Recommended Disclosure b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Our new long-term emission reduction targets, which have been assessed and approved by the Science Based Targets initiative (SBTi), lock down our commitment to drive climate action across the value chain and ensure that we contribute to the decarbonization required to keep the global temperature increase below 1.5 °C.

Recommended Disclosure c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Climate-related metrics form part of the Long-Term Incentive program.

Refer to sections 5.3 Environmental performance (Environmental impact), 5.3.1 Green Innovation, 5.3.2 Green Revenues, 5.3.3 Sustainable Operations (Carbon footprint and energy efficiency) and 8.2.2 Remuneration report 2020 of the Annual Report 2020.

Refer to sections 5.3.3 Sustainable Operations (Carbon footprint and energy efficiency) and 13.3.3 Sustainable Operations of the Annual Report 2020.

Refer to sections 13.1.5 Programs and targets and 13.4.3 Sustainable Operations of the Annual Report 2020.

