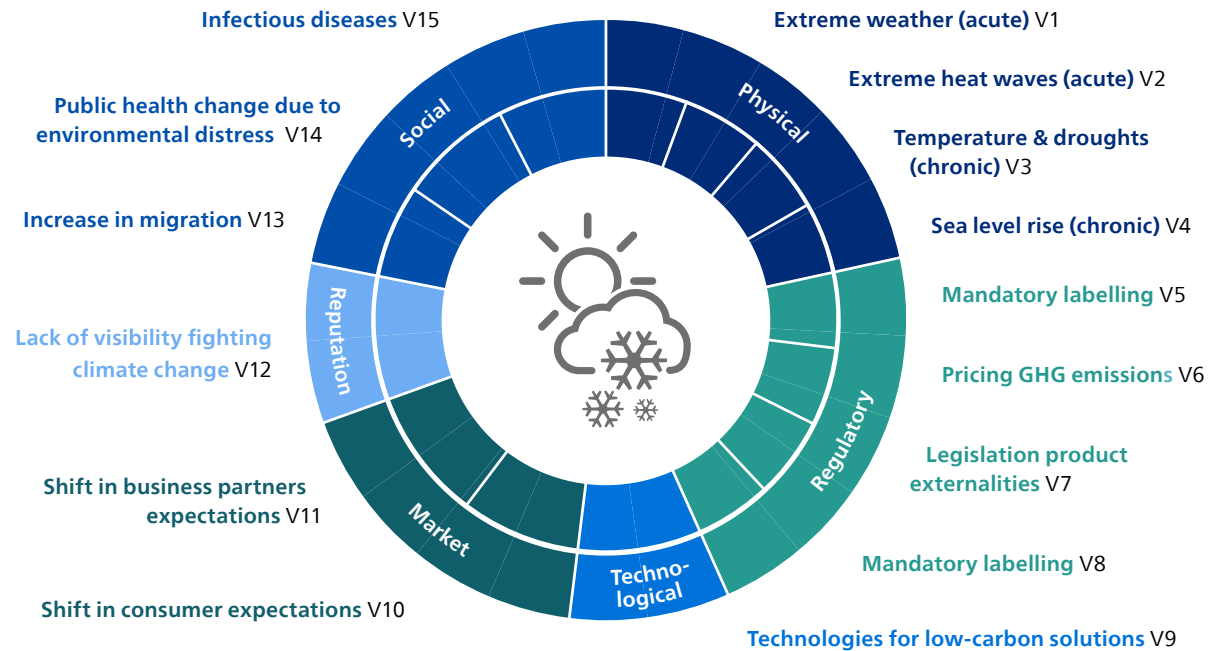


Publication of the
**Task Force on Climate-
Related Financial
Disclosures (TCFD)**

Publication of the Task Force on Climate-Related Financial Disclosures (TCFD)



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.

As a purpose-driven company with an enhanced and fully integrated approach to doing business responsibly and sustainably, Philips issued its first annual TCFD recommendations in 2020. Prior to this report, we conducted an initial assessment to determine the physical chronic and acute physical events in a 2°C and 4°C aligned scenario by 2030. Last year's report elaborated on Philips' climate physical and transition risk management processes inspired by the TCFD framework, in which 15 climate-related vulnerabilities were identified: four physical, four regulatory, one technological, two market, one reputational and three social vulnerabilities that each could lead to positive or negative impacts.

In 2021, together with KPMG, we have further assessed the risks and opportunities for Philips related to climate change. An internal multi-disciplinary team from Business Continuity Management, Enterprise Risk Management, Real Estate, Innovation & Strategy and Sustainability has analyzed the medium-term impacts caused by natural physical hazards on our value chain. Moreover, this team has started to assess the potential impact of Philips' Science Based Targets (SBT), as the ambitious supply chain decarbonization targets are a key action to mitigate the risks from the implementation of new carbon prices in Philips' key markets.

As a first step, for this project we wanted to focus efforts on obtaining a comprehensive overview of the risks and opportunities landscape, highlighting climate-change-related transition risks and opportunities and how these can be assessed in the context of scenarios in line with temperature trajectories. To that end, we considered narratives for two scenarios, in line with a 2°C and 4°C world by time horizon 2030, leveraging existing scenarios and KPMG scenarios, using the PESTEL framework. The first scenario, in line with a 2°C world, anticipates a governed transition towards a sustainable economy, while the second scenario, in line with a 4°C world, considers a disorganized transition.

In line with a 4°C world by 2030

Political & Legal - Nationalistic

- Government | Increase in focus on nationalism and protectionism | Short-term thinking
- GHG policies | No global carbon price
- Environmental standards | Unplanned, sudden and inconsistent | Set by economic players | Response to extreme events
- Labelling | No drive for labelling | Compliance driven

Economic - Business as Usual

- Global trade | Carbon leakage due to large differences in carbon regulations between countries | Increase in complex value chains
- Critical raw materials | Regional disparity | Competition across sectors
- Circularity | Not mainstreamed | Regional resource scarcity

Technological - Stuck

- Renewable energy | Business as usual continues in most regions
- Product innovation | Health technology only for privileged groups
- Digitization | 'Gap' not closed, hindering sustainability transformation

Social - Unequal

- Health and lifestyle | Hampered access to care | Environmental effects on health (both acute extreme (weather) events and chronic exposure)
- Consumer awareness | Price is the main driver | Greenwashing

The following summary may not, however, include all risks that may ultimately impact Philips. This list is not exhaustive, but a selection based on desk research, expert views and interviews. 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

In line with a 2°C world by 2030

Political & Legal - Collaborative

- Government | Focus on collaboration, inclusion and unification
- GHG policies | Global agreement on Carbon pricing | Carbon Pricing in line with scientific and economic understanding
- Environmental standards | Governmentally driven allowing for planned and rapid uptake
- Labelling | Governmental led mandatory labeling

Economic - Regulated

- Global trade | Increase in demand of low-carbon and durable products
- Critical raw materials | Increase in importance and demand of critical raw materials to enable energy transition (solar and wind)
- Circularity | Increase secondary materials use & new business models

Technological - Advancing & Focused

- Renewable energy | Rapid increase, also in cost-competitiveness
- Product innovation | Innovation for unmet public health needs
- Digitization | Support the de-carbonization of multiple sectors

Social - Aware & Solidary

- Health and lifestyle | Maintaining quality of the natural environment affecting human health | More focus on well-being
- Consumer awareness | Environmentally conscious | Labelling
- Migration | Related to environmental effects in specific regions

capital resources. The assigned vulnerability to each risk is part of the preliminary assessment conducted by our multi-disciplinary team. More specific research is required to have a more granular understanding of the risks and to design the most appropriate response to these vulnerabilities.

The main **physical impacts** are considered **similar in the 2°C and 4°C by 2030** scenarios; however, they are projected to differ more significantly for the two scenarios beyond 2040. **The risks** are considered **medium** connected to **extreme weather events and wildfires** caused by temperature rise that could affect manufacturing sites and disrupt supply.

In the 2°C scenario by 2030, **regulatory risks** are considered **medium to high** as it is expected that regulations will be more ambitious, consistent and aiming for an organized transition, and customers and consumers will demand sustainable products and low-carbon technologies. Moreover, we expect a **high opportunity** for Philips to benefit from this awareness and early-mover advantage to sell more sustainable products and low-carbon technologies.

In the 4°C scenario by 2030, **transition risks** (including regulatory, technological, market and reputational) are considered **low** as regulations are expected to be disorganized and

inconsistent across countries and regions, and customers and consumers are expected to have limited demand for sustainable products and low-carbon technologies. Furthermore, we consider these a **low opportunity** for Philips, as sustainable products and low-carbon technologies will provide limited competitive advantage without a level playing field.

The impact from **social risks** is considered **similar in the 4°C and 2°C by 2030** time horizon; however, they are projected to differ more significantly for the two scenarios beyond 2040. The risks are considered **medium** as an increase in migration, health damage and infectious diseases caused by environmental distress due to climate change can cause disruptions in the workforce and supply and could negatively affect access to care and consumer demand. In addition, we consider them a **high opportunity** for Philips as these same vulnerabilities are expected to lead to a higher demand for acute and chronic healthcare across the health continuum.

Risk cluster	Risk ID	Risk type	Business implications	Adaptions
Physical	V01	Extreme weather	Price volatility due to disrupted supply or facility closures	<ul style="list-style-type: none"> Manage the risk of rising commodity prices by long-term contracting and keeping physical inventories Deploy an integrated supplier risk management framework to assess and manage suppliers from various perspectives, enabling agile responses to large and rapid shifts in demand and supply Expand the Design for Excellence approach to the full value chain, which includes designing products in such a way that supply dependencies are minimal Deploy site-specific assessments to better prepare sites for events caused by climate change (e.g. more efficient cooling systems)
	V02	Extreme heat waves (acute)	Delay in supply due to business disruption	
	V03	Temperature and droughts (chronic)	Cost of cooling and air condition	
	V04	Sea level rise (chronic)	Investments in Philips facilities and supply chain to mitigate flooding risks	
Regulatory	V05	Mandatory labelling	Cost of alteration in manufacturing to comply with certification and labelling requirements	<ul style="list-style-type: none"> Monitor and maintain relationships with policy makers and regulatory and standard-setting bodies to stay on top of changes in policies, legislation and regulation Since 2020, Philips is carbon-neutral in its operations. Philips' Science Based Targets aim to reduce the entire value chain in line with a 1.5°C global warming scenario Reduce the dependency on critical materials through our ambitious circular economy objectives for 2025
	V06	Pricing GHG emissions	Compliance costs (GHG taxes, tariffs and cap-and-trade schemes)	
	V07	Legislation product externalities	Cost of procurement towards environmental-friendly alternatives	
	V08	Renewable energy & material demand	Increased price and price volatility of certain critical materials	
Technological	V09	Technologies for low-carbon solutions	Cost of R&D (new technologies, renewable energy systems, waste management, low-carbon manufacturing and highly efficient buildings)	<ul style="list-style-type: none"> With the required deep understanding, R&D is considered an opportunity to accomplish our pledges, such as sending zero waste to landfill in our own operations by 2025
Market	V10	Shift in consumer expectations	Climate-conscious business partners and consumer segments moving away from manufacturers with high externalities	<ul style="list-style-type: none"> Raise the 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
	V11	Shift in business partners expectations		
Reputation	V12	Lack of visibility fighting climate change	Cost of alteration in manufacturing, production and distribution to demonstrate commitment to fight climate change	<ul style="list-style-type: none"> Philips is already recognized as one of the leading companies for sustainability performance (e.g. in the global 2021 Dow Jones Sustainability Indices (DJSI) list)
Social	V13	Increase in migration	Disrupted manufacturing from change in workforce, process and transport disruptions	<ul style="list-style-type: none"> Deploy a global Business Continuity Management System, which is certified against the ISO standard for Business Continuity Expand access to care; our commitment is to improve people's health and well-being includes 300 million people in underserved communities by 2025, rising to 400 million by 2030 Join forces with ecosystem partners to deploy innovative solutions that can help create more resilient local healthcare systems
	V14	Public health change due to environmental distress	Cost of investments in programs and partnerships with critical suppliers to help solve for social issues and increase productivity	
	V15	Infectious diseases	Disruption caused by new infectious diseases (like COVID-19), if vectors of certain disease (mosquitoes) become more wide-spread due to increase in temperature caused by climate change	

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.

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 of the Annual Report 2021.

Recommended Disclosure b)

Describe management's role in assessing and managing climate-related risks and opportunities.

Risks are assessed at least annually. For more information on the Executive Committee's oversight of risk, please refer to Section 6.1 Our approach to risk management (Risk management governance), 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 2021.

Please refer to section 5.2 Philips' ESG commitments for more details. At Philips, Environmental, Social & Governance 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. We strongly believe that our ESG framework comprises a detailed plan of action that guides the execution of the company's strategy to face climate-related challenges.

The Executive Committee's approach toward assessing and managing climate-related risks and opportunities is driven by the Environmental, Social & Governance (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).

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.

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

Recommended Disclosure b)

Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

In 2021, we assessed the exposure of financially material locations to chronic and acute physical events in a 2°C and 4°C aligned scenario by 2030. Assessing the physical risks in more granularity has improved the understanding of the potential financial implications along the value chain.

This assessment enabled us to identify the specific business implications along the value chain, resulting from damage to and disruption of assets. According to our 2021 assessment, the impact on our supply chain, own operations and our customers, both healthcare providers and consumers, can be significant, if not managed properly. However, our multidisciplinary team acknowledges that a more detailed understanding of the business implications on revenues, expenditures, assets and liabilities, and on capital and financing is required as input for quantification.

Philips has access to different scenarios in the Munich RE NATHAN tool to assess expected changes from climate impact for its own locations. We have conducted a first site-specific screening for possible damage and disruption caused by the following hazards: drought stress, fire weather stress, heat stress, precipitation stress, river floods, and tropical cyclones.

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.

In 2020, Philips achieved its target to become carbon-neutral in its operations, which it again attained in 2021. 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 (SBT) we are reducing our exposure to transition risks, like changing legislation and carbon pricing. Nonetheless, strong government policies in line with the Paris Agreement could materialize in higher carbon pricing impacts. Hence, our SBTs have become a key factor in mitigating the risk associated with the implementation of a carbon price, especially in a 2°C world with higher decarbonization costs. Philips needs to identify per emission scope and category how it can steer on the emissions. In 2022, we will further assess the impact of our SBTs on the broader financial implications for Philips.

Risks – Section 6.3 Strategic risks of the Annual Report 2021 - Philips may be unable to meet internal or external aims or expectations with respect to ESG-related matters

Environmental, Social and Governance (ESG) factors may directly and indirectly impact the business environment in which Philips operates. Philips may from time to time disclose ESG-related initiatives or aims in connection with the conduct of its business and operations (for example with respect to reducing greenhouse gas emissions in its supply chain). However, there is no guarantee that Philips will be able to implement such initiatives or meet such aims within anticipated timeframes, or at all. In addition, there is an increasing focus from Philips' stakeholders – including customers, employees, regulators, and investors – on ESG matters, and those stakeholders may also have ESG-related expectations with respect to Philips' business and operations. For example, customers may focus on ESG-related criteria in buying our products and any inability by Philips to address concerns about ESG-related matters could negatively impact sentiment towards Philips and our products and brands. There are an increasing number of regulatory and legislative initiatives to address ESG issues, such as the EU Taxonomy Regulation, which aims to define common rules for determining whether economic activities contribute to sustainability objectives. These regulatory and legislative initiatives in turn could also affect how our products or business operations are perceived by customers or other stakeholders. If our products or business operations do not meet the criteria for sustainability according to the EU Taxonomy Regulation (including the related delegated regulations) or any other similar regulations, this may negatively affect the views of our customers or other stakeholders. Philips may fail to fulfil internal or external ESG-related initiatives, aims or expectations, or may be perceived to do so, or we may fail adequately or accurately to report

performance or developments with respect to such initiatives, aims or expectations. In addition, Philips could be criticized or held responsible for the scope of its initiatives or goals regarding ESG matters. Any of these factors may have an adverse impact on Philips' reputation and brand value or on Philips' business, financial condition and operating results

Risk response:

We have raised our ESG commitments towards 2025 and have adopted a comprehensive ESG framework. Environmental: We are working to minimize our impact on the planet by taking climate action, driving the transition to a circular economy, implementing EcoDesign in our products, and partnering with our suppliers to reduce their environmental footprint. Social: We aim to deliver social impact by improving people's health and well-being, offering the best place to work, and engaging with our suppliers and the communities where we operate. Governance: At Philips, everything we do is anchored by ethical and responsible practices. Our management structure, operating model, ethics framework and robust risk management help us maintain the highest standards. We have established an ESG Committee which monitors progress and assesses risks in relation to our ESG strategy and makes recommendations to the Executive Committee on the continuous improvement of our ESG endeavors. For more information, please refer to the ESG chapter in the Annual Report 2021.

Risks – Section 6.4 Operational risks of the Annual Report 2021 - Philips may be unable to ensure an effective supply chain

Most of Philips' operations are conducted internationally, which exposes Philips to supply chain challenges. Philips produces and procures products and parts in various countries globally and in addition is partly dependent on the production and procurement of products and parts from Asian countries, and disruption to production in and shipping from Asian countries could have a disproportionate impact on our business compared to disruptions in other markets. The production and shipping of products and parts could be interrupted by various factors such as geopolitics (e.g. US-China relations and protectionist measures taken in various markets), regional conflicts, natural disasters or extreme weather events (the effects of which may be exacerbated by climate change), container imbalances or port congestions. For example, our sales have been impacted unfavorably by the intensified global supply chain issues, such as the shortage of electronic components. There is currently scarcity in the availability of semiconductors due to increased global demand: as a health technology company, Philips is dependent on the availability of semiconductors

Recommended Disclosure C)

Continued.

and continued scarcity may cause increased lead times and adversely impact our production capacity. Pandemics (e.g. resurgences of COVID-19 or mutations thereof) may disrupt supply chains due to rapid shifts in demand, the need for production capacity adjustments and safety improvements in the environments for production, field service, installation and Research & Development in which our employees operate. If Philips is not able to respond swiftly to those various factors, this may result in an inability to deliver on customer needs, ultimately resulting in loss of revenue and margin.

A general shortage of materials (sub-) components or means of transportation drives the risk of fluctuations in price. Philips purchases raw materials, including rare-earth metals, copper, steel, aluminum, noble gases and oil-related products. Commodities have been subject to volatile markets, and such volatility is expected to continue and costs to increase, including as a result of stricter climate change related laws and regulations. Such legislation could require investments in technology to reduce energy use, and greenhouse gas emissions, beyond what we expect in our existing plans or could result in additional and increased carbon pricing. If Philips is not able to compensate for increased costs of (sub-) components, (raw) materials and transportation, reduce reliance thereon, or pass on increased costs to customers, then price increases could have a material adverse impact on Philips' business, financial condition and operating results.

Philips is also 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, which may result in increased dependency on a concentration of external suppliers. These processes also need to be balanced with local market requirements, including those relating to local manufacturing and data storage. 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.

Risk response: *Philips is extending the simplification of its portfolio and its 'Design for Excellence' approach to the full value chain, which includes designing products in such a way that supply dependencies are minimized. Furthermore, we are optimizing our 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 is making balanced investments in both global and local supply chains to reduce dependencies and lead times and to meet local market requirements.*

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. We also maintain close relationships with our suppliers and maintain an ongoing dialogue to align our demand to their supply allocation.

Philips conducts various scenario assessments and develops response strategies to events potentially impacting its supply chain, such as geopolitical changes, natural disasters, emerging markets volatility, and pandemics. We run various global warming and weather scenarios on the geographical footprint of our facilities as well as our suppliers in line with the recommendations of the Taskforce on Climate related Financial Disclosures. Philips has deployed a global Business Continuity Management System, which is aligned to, and certified against, the ISO standard for Business Continuity.

Philips manages carbon pricing risk by reducing its full-value-chain carbon footprint and partnering with suppliers to reduce their environmental footprint, and closely monitors carbon regulations including carbon taxes. 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. Next, we aim to close the loop for all medical devices by 2025.

Recommended Disclosure C)

Continued.

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 2021, Green/EcoDesigned Revenues amounted to 71% of sales. 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 2021, 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 offset all unavoidable emissions by year-end 2020. We are proud to confirm that as of 2020, Philips was carbon-neutral in its operations and maintained this in 2021.

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 relatively well positioned to meet regulatory requirements stemming from the Paris agreement.

Risk Management

Disclose the organization's governance around climate-related risks and opportunities.

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).

Refer to section 6.1 Our approach to risk management of the Annual Report 2021 for a description of our vision and objectives on risk, our risk management governance, and our risk appetite.

Recommended Disclosure b)

Describe the organization's processes for managing climate-related risks.

Refer to sections 13.1.9 Sustainability Governance, 13.4.8 Supplier indicators and 13.3.3 Sustainable Operations of the Annual Report 2021.

Recommended Disclosure b)

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 2021 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 2021 as well as via www.results.philips.com.

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.

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

Recommended Disclosure b)

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 green-house gas (GHG) emissions, and the related risks.

Refer to sections 5.3 Environmental performance (Environmental impact), 5.3.1 Green/EcoDesigned Innovation, 5.3.2 Green/EcoDesigned Revenues, 5.3.3 Sustainable Operations (Carbon footprint and energy efficiency) and 8.2.2 Remuneration report 2021 of the Annual Report 2021.

Refer to sections 5.3.3 Sustainable Operations (Carbon footprint and energy efficiency) and 13.3.3 Sustainable Operations of the Annual Report 2021.

Recommended Disclosure b)

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

Refer to sections 13.1.5 Programs and targets and 13.4.3 Sustainable Operations of the Annual Report 2021.

