

Publication of the
**Task Force on Nature-Related
Financial Disclosures (TNFD) 2023**

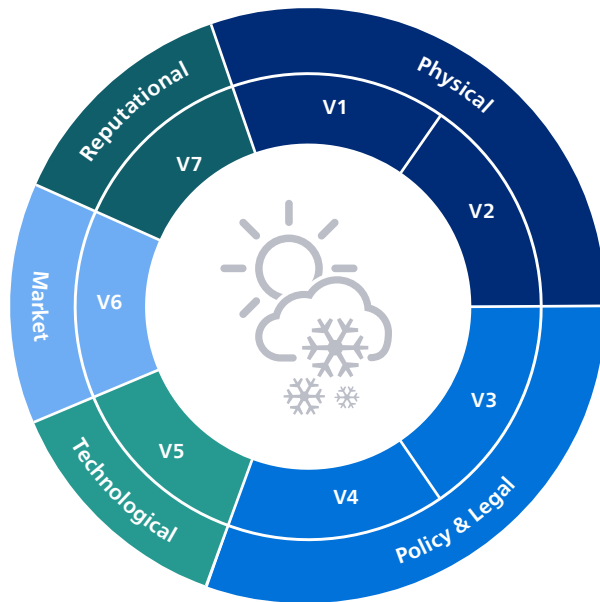
Executive summary

Philips recognizes the importance of identifying, assessing, and mitigating nature-related risks to ensure business continuity and resilience. This report marks the inaugural release of the annual Taskforce on Nature-related Financial Disclosures (TNFD) recommendations, offering information for investors, lenders, insurance underwriters, and other stakeholders to accurately assess and price nature-related risks and opportunities.

The company acknowledges that, as stated by the Taskforce, 'nature is a core and strategic risk management issue alongside climate change.' As a purpose-driven company with an enhanced and fully integrated approach to responsible and sustainable business practices, we are actively restructuring our business models to decouple economic growth from the environmental impact. The TNFD recommendations are organized into four thematic areas reflecting core elements of how Philips operates: governance, strategy, risk management, and metrics and targets.

In preparing this report, we applied the Locate, Evaluate, Assess, and Prepare (LEAP) approach, as outlined by the TNFD recommendations, and elaborated on Philips' physical and transition risk management processes. Our 2023 TNFD report delves into seven (7) nature-related vulnerabilities, covering physical, policy and legal, technology, market, and reputation risks, along with the respective opportunities.

Nature related hazards and transition events



- V1** Acute risks
- V2** Chronic risks
- V3** Enhanced material flow reporting obligations
- V4** Mandates on and regulation of existing products and services
- V5** Substitution towards lower nature impactful alternatives
- V6** Market signal
- V7** Increased stakeholder concern and pressure

This summary may not encompass all nature-related risks and opportunities impacting Philips. While not exhaustive, it is a selection based on desk research, expert views, and interviews. Risks not currently known to Philips, or considered immaterial, could potentially have a significant impact on Philips' businesses, objectives, revenues, income, assets, liquidity, or capital resources.

Introduction

Addressing biodiversity and ecosystem services loss, along with building a nature-positive value chain, holds significant importance for Philips. This report delves into our exposure to physical and transition risks, detailing the expected impacts and outlining mitigation/adaptation actions that have been or will be implemented in the future. The approach employed in this assessment is qualitative in nature.

In compliance with the Environmental and Social Risk Standard (ESRS), preceding this report, we conducted an assessment using the Locate, Evaluate, Assess, and Prepare (LEAP) approach developed by The Task Force on Nature-related Financial Disclosures (TNFD). The LEAP framework, encompassing four phases, guided Philips' internal multi-disciplinary team in ensuring that our assessment process comprehensively addresses nature-related risks and opportunities in accordance with TNFD's recommended disclosures.

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Locate, Evaluate, Assess, and Prepare (LEAP) approach

Phase	Definition ¹
Locate	Locate Philips' interface with nature
Evaluate	Evaluate Philips' dependencies and impacts on nature
Assess	Assess Philips' nature-related risks and opportunities
Prepare	Prepare to respond to, and report on, material nature-related issues, aligned with the TNFD's recommended disclosures

Regarding Physical risks this includes a selection of Philips' manufacturing sites, across the short-, medium-, and long-term. All transition risks are assessed on a global scale considering both upstream and downstream activities that might have a direct impact on Philips operations.

The assessment of each risk is conducted by a multi-disciplinary team, consisting of members of Philips Group Sustainability, and Health and Safety. Moving forward, more research is required to understand the potential value at risk due to ecosystem degradation.

¹ Definitions are based on Taskforce on Nature-related Financial Disclosures ([The Taskforce on Nature-related Financial Disclosures \(tnfd.global\)](https://www.tnfd.org/))

Critical assumptions

As our nature risk management is based on forecasting this report is dependent on several key assumptions. Assumptions that apply to the entire report are further elaborated in this section while those assumptions that are specific to either physical or transition risks/opportunities are explored in the designated chapter.

For the nature risk assessment, we employ three distinct time horizons, diverging from the European Sustainability Reporting Standard's (ESRS) prescribed duration of 5 years. This departure is justified by the expectation that ecosystem degradation and corresponding mitigation actions will unfold over a longer period. In defining these timeframes, the short-term encompasses impacts and actions expected within the next 2 to 3 years, the medium-term spans the 5 to 10-year horizon, and the long-term extends to the 10 to 20-year timeframe. While these periods are not directly tied to the expected lifetimes of our assets or the strategic planning and capital allocation plans, they are selected in consultation with other departments to ensure business continuity indefinitely. Assessing the exposure of our current portfolio in the long term is crucial for integrating nature-related resilience into strategic planning and capital allocation decisions.

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Time Horizons and Corresponding Target Years of TNFD 2023

Time horizon	Target Year
Short-term	2025
Medium-term	2030
Long term	2050

For Philips assessment, among others, the scenarios SSP1-1.9, SSP1-2.6 and SSP5-8.5 have been examined. The SSP1-1.9 and SSP1-2.6 scenario are intended as a nature positive scenario in which global warming is limited to below 1.5°C. The SSP5-8.5 scenario, on the other hand, is intended as scenario in which the world is unable to prevent ecosystem degradation and biodiversity loss. Each scenario is further explored in its designated chapter. Other mid-level scenarios have also been explored but not included in this report as we intend to build resilience based on potential extreme outcomes.

The hot spot analysis per scenario was partially conducted using the geospatial coordinates of our sites and partially using country/region estimates. Conclusions are, therefore, either location-specific or rough estimates that apply to entire regions or countries. This assessment is done using an external risk insurance tool ([Munich Re](#)) and open-source data platform ([Aqeduct](#)). Both of these leverage the climate models of the Coupled Model Intercomparison Project (CMIP6), which form the basis of the [sixth assessment report of the Intergovernmental Panel on Climate Change \(IPCC\)](#). The reference period used for extrapolation is 1995–2014.

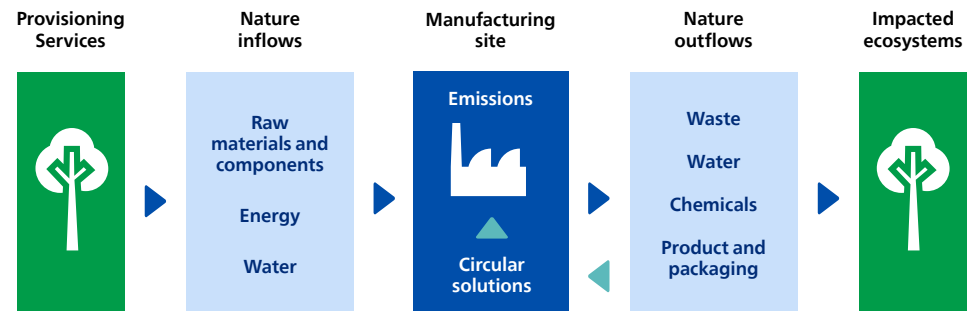
The scope

The scope of this resilience analysis is applicable to all of Philips' businesses, regions, and functions. Furthermore, the entire value chain, including suppliers and customers, is in scope. However, as this is our first TNFD report, a large part of the physical hot spot analysis is limited to the 23 Philips manufacturing sites. To gain a better understanding of the nature-related inflows and outflows of our manufacturing sites, please refer to the next figure.

At the same time, Philips is aware that the total environmental impact of the full value chain is substantial, especially upstream in the mining industry. We aim to progressively extend scope of the physical hot spot analyses to offer more comprehensive nature-related disclosures in the coming years.

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A manufacturing site of Philips with the in and outflows eventually impacting ecosystems



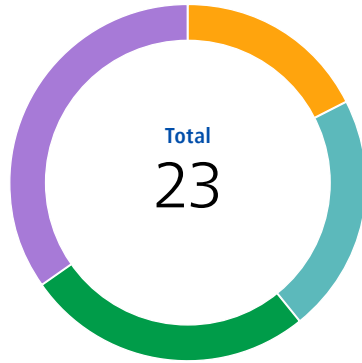
As a globally operating corporation, we have a manufacturing footprint that spans 23 sites across 10 different countries. The next figure provides a graphical representation of our manufacturing footprint, with the size of each circle proportionate to the number of sites located in that region.

At a glance: Manufacturing activities in 2023

Philips operates in 74 countries with its ultimate parent entity located in the Netherlands. This overview encompasses Philips main manufacturing facilities.

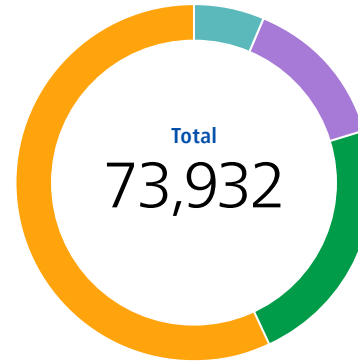
Facilities

- Europe Region
6
- North America
8
- Growth Region
4
- Greater China
5



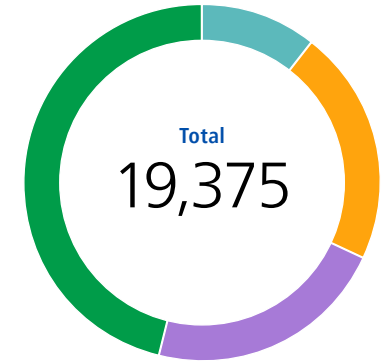
VOC emissions in Tonnes CO₂e

- Europe Region
16,853
- North America
10,320
- Growth Region
42,179
- Greater China
4,580



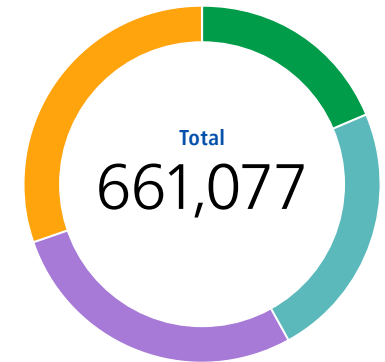
Waste generated in tonnes

- Europe Region
8,956
- North America
4,256
- Growth Region
4,143
- Greater China
2,020



Water withdrawal in m³

- Europe Region
122,883
- North America
183,970
- Growth Region
201,114
- Greater China
153,110



Disclaimer: This diagram provides a high-level overview of Philips' business activities. However, it is not intended to be conclusive or comprehensive, and certain details may not be included. Energy numbers per region might not add up to total due to the rounding logic implemented.

Governance

Nature Risk Management embeddedness

Nature-related risks and opportunities are the responsibility of the Executive Committee. The Risk Management Support department, comprising experts in various enterprise risk categories, assists the Executive Committee by regularly analyzing the enterprise risk profile and enhancing the risk management framework. Climate-related risks and opportunities are managed similarly to other risks outlined in Section 6, "Risk Management," of the Annual Report 2023.

Methodology

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", 6.2 "Risk factors", 6.3 "Strategic risks", 6.4 "Operational risks", 6.5 "Financial risks", and 6.6 "Compliance risks" of the Annual Report 2023.

The Executive Committee's approach toward assessing and managing nature-related risks and opportunities is driven by the Environmental, Social & Governance (ESG) commitments. Please refer to section 5.1 "Philips' ESG commitments" of the Annual Report 2023 for more details.

At Philips, Environmental, Social & Governance represent the three key dimensions shaping responsible and sustainable business practices and societal impact. These dimensions reflect a widely held view that companies embracing accountability and transparency will be more viable and valuable in the long term. Our ESG framework provides a detailed plan of action guiding the execution of the company's strategy to address nature-related challenges.

The Board of Management (BoM) oversees ESG matters as the highest governing body, convening quarterly to assess Philips' ESG strategy, commitments, programs, and policies. This includes monitoring progress and taking corrective action when needed. To support the BoM and functional executives in assessing nature-related risks and opportunities, we collaborate with an internal multi-disciplinary team. This team provides comprehensive overviews of the risks and opportunities landscape, emphasizing nature-change related aspects and their assessment within the context of scenario analysis. For additional information, please refer to Section 5.4.1, "Corporate Governance," in the Annual Report 2023.

Physical Risks

The scenario

In alignment with the ESRS requirements, Philips' exposure to physical nature related hazards was assessed using a high global warming scenario (SSP5 – RCP8.5). While we acknowledge the differences between the Taskforce on Nature-related Financial Disclosure (TNFD) and the Taskforce on Climate-related Financial Disclosure (TCFD), which Philips has disclosed annually since 2020, we partially leveraged the physical risk framework and scenario used for the TCFD to analyze the impact of nature degradation on Philips.

This so called "Fossil fuel development" scenario assumes society will use a technocratic approach to tackling the grand challenge of climate change and nature loss. The economy will continue its dependency on oil, coal and gas and a focus will be on increasing market efficiencies to support the increasing demand for resources. Overall consumption will correspondingly increase as global development progresses. Although inequalities are reduced across and within countries, the results are highly disruptive nature related impacts due to frequent and intense extreme weather events and the spreading of diseases and pests. The magnitude of these risks is exacerbated by the elimination of ecosystem protection and the increased application of efficient monoculture practices.

Chronic threats such as desertification, ecosystem degradation, and ecosystem fragmentation also pose a significant challenge to communities around the globe. The results are high socio-economic challenges to mitigation and low socio-economic challenges to adaptation.

It is important to note that this scenario is not a prediction of the future but rather a plausible storyline to understand the given socio-economic circumstances that are required to achieve global warming of around 3.3°C – 5.7°C by the end of the century. From all five SSP scenarios only the SSP5 scenario will lead to emissions with approximate global effective radiative forcing of 8.5 W m⁻² in 2100. It is therefore not just a business-as-usual scenario but rather a worst-case scenario that we can only achieve by having a combination of high population growth and increased material growth. It remains of relevance for Philips as we are committed to building nature-related resilience under extreme conditions. For more information on the boundaries, constraints, and confidence intervals of the scenario of interest please refer to chapter 4 of the [sixth Assessment report of the IPCC](#).

Under the above-mentioned conditions, we have assessed the following changes in nature across the short-, medium- and long-term²:

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Physical events of interest

Physical event	Definition	Nature Change relevance
Changes in the state (condition and/or extent) of ecosystems	This refers to the general state of an ecosystem, encompassing both its health (condition) and the spatial coverage (extent).	We as Philips are embedded in both micro and macro scale ecosystems. Anthropogenic changes to these could have a detrimental trickle-down effect on the health and resilience of our operations.
Changes to the supply of natural inputs	Changes in the availability or quantity of natural resources and ecosystem services. This can include shifts in the abundance or quality of resources like water, raw materials and energy that are derived from ecosystems.	Without provisioning services, such as water and raw materials, we as Philips would not be able to conduct our day-to-day operations directly or indirectly. It is therefore of utmost importance for us to monitor the quality and availability of provision services.
Changes to protection from natural hazards due to ecosystem changes	This refers to how changes (deterioration) in ecosystems impact our protection against natural hazards such as floods, wildfires, and other extreme weather events.	Natural ecosystems can function as critical protection mechanism against natural hazards such as flooding and storms. The destruction of these can not only increase our sites exposure but put entire communities at risk.
Changes to species the organization is dependent on	This refers to how changes in the status of key species may impact the organization's operations, supply chains, and overall business resilience. Species in this instance refers to all organic matter.	As Philips we are dependent on certain biological resources for the packaging and assembly of our products. Changes to their status could hamper our supply chain resilience and prevent us from delivering on our promises.

Philips' physical risk screening encompasses the entire value chain. Concerning our own operations, this involves analyzing 23 manufacturing sites through a hotspot analysis. The analysis employed external tools from Aqueduct, World Wildlife Fund, and Munich Re. Through this, we assessed the anticipated likelihood of nature-related risks becoming material in the future and the extent to which conditions related to nature are expected to change. It is important to note that this qualitative analysis was conducted to identify key nature-related risks for Philips. For all physical risks associated with resource sourcing and waste generation, we conducted our analysis using the Environmental Profit and Loss statement.

Acute Physical Risks

According to the TNFD guidance, acute risks are event-driven, featuring short-term occurrences that lead to changes in the state of nature. However, rather than just inspecting Philips' impact on nature, we apply a double materiality perspective thereby recognizing that impacts can be both inwards and outwards. This can for example include increased exposure to natural hazards due to ecosystem degradation (inwards) and the sudden loss of biodiversity due to a chemical spill (outwards).

Our current and short-term exposure to extreme weather events is mainly dependent on the location of our key manufacturing sites. As already identified in the TCFD disclosure this is under scrutiny through Philips' Risk Engineering Manual (PREM) process. Risk assessments are made by our Insurance Risk Management Department, jointly with our insurers. Where possible, risks are mitigated and otherwise monitored. For example, as response to the risk of flooding at our Zhuhai, Suzhou and Shenzhen (China) sites we decided to raise/elevate the factory floor of the Suzhou and Zhuhai sites and to install flood gates at the Shenzhen site. Thereby successfully mitigating this acute risk.

Regarding the medium- and long-term, our risk exposure to extreme weather events is dependent on two key components. Namely the intensification, including magnitude and duration, of said events and ecosystem fragmentation reducing the resilience of entire systems. The intensification of extreme weather events is already covered in our annual TCFD publication and will therefore not be further explored in this report. Concerning the ecosystem integrity, the increasing rate of urbanization and deforestation are key areas of interest.

In Shenzhen for example the historic destruction of mangroves, due to rapid urbanization, has increased the city's exposure to typhoons thus increasing the likelihood of flooding. A concern although, as previously mentioned, we have taken actions at our own sites. On a systems level, however, we are embedded in the local community and therefore committed to building ecosystem wide resilience. We do so by increasing local awareness for the need of ecosystem integrity and endorsing initiatives such as the "Shenzhen Mangrove Wetland conservation foundation". Through our Biodiversity and Ecosystem Services (BES) ambassador program we also proactively encourage all employees to act upon our ESG commitments.

² Definitions are based on Munich Re's Location Risk Intelligence Platform (<https://www.munichre.com/rmp/en/products/location-risk-intelligence.html>)

At other sites the risk of business interruption is also likely going to increase in case of poor ecosystem conditions. At all our locations the maximum one-day precipitation will increase across the medium- and long-term. A concern especially for sites located in the tropics that already face high irregular precipitation events. For our Coyol (Costa Rica) and Batam (Indonesia) site, for example, we will experience an increase of 10 and 8.4 millimeters respectively. Increases that are not of a concern on a site level considering our mature risk management system. However, on a systems level it is important to note that Flora plays a critical role in ensuring soil stability and reducing the risk of hazards such as landslides. Increased deforestation paired with this increased precipitation could therefore lead to infrastructural damage and operational disruptions. We are therefore monitoring the ecosystem condition on an annual basis leveraging the [WWF Risk Filter Suite](#). Currently for both Coyol and Batam the risk of poor ecosystem conditions is considered low. No corrective actions have therefore been taken.

Moving on, from an operational perspective, an acute nature-related risk that has played a very prominent role in the recent past is the increased danger of cross-species infections due to biodiversity and habitat loss. With increased pressure on biodiversity and habitat loss forcing wildlife outside their ecosystem in the medium- and long-term this risk will likely become more prominent. This, as demonstrated by the COVID pandemic, on an individual level can threaten the lives of all. On an organizational level this can also increase business uncertainty and the likelihood of disruptions. To monitor this risk and ensure we as a business are prepared, all sites are required to annually assess this risk as part of the business continuity program. We also centrally conduct regular scenario assessments and develop hypothetical response strategies.

Regarding air pollution, only our manufacturing site in Pune (India) is situated in a zone of 'medium risk' of air pollution, while the remaining sites are assessed as 'very low' or 'low.' Nevertheless, we anticipate that more manufacturing sites may be classified as 'medium risk' or 'high risk' in the medium- and long-term. This could lead to increased exposure to smog (inwards). While the health of the impacted people is the most important concern, smog can also have an impact on the productivity of the sites. In addition to Pune, we closely monitor the smog situation in China. We actively promote the global implementation of electric vehicles (EVs) at our sites to contribute to the improvement of air quality for our employees and the surrounding communities of our manufacturing sites. Philips is committed to reducing total CO₂ equivalent (tCO₂e) emissions from its sites by 75% by 2025 and 90% by 2040, compared to their 2015 emissions, as part of its SBTi targets.

Philips sets strict targets for chemical usage, soil pollution, water pollution, and waste management, emphasizing our commitment to responsible practices. Our proactive approach not only helps secure licenses but also enhances our brand value in stakeholder engagements. Philips faces the risk of losing its license to operate at the locations of its manufacturing sites, as well as damaging its reputation in the event of an increase in environmental impact. Philips' sites never discharge contaminated wastewater without treatment and 23 out of our 23 industrial sites have the Zero Waste to Landfill status. Compared to heavy industry, our sites have relatively few chemical emissions and we have voluntary targets to reduce them. However, most of our manufacturing operations have processes that result in some emissions to air and water. Therefore, we carefully monitor all emissions and are working to limit hazardous chemical and VOC emissions. Many of these decisions happen at the product and process design stage. We want to track the impact of chemical substances on a life-cycle basis and, based on a risk-level classification and precautionary principle, to ensure implementation in an active and practical way. The Classified Substances List (CSL) has been set up to manage, restrict, control and/or monitor chemical substances according to regulation requirements and/or known risks. We give special attention to manufacturing sites in close proximity to key biodiversity areas, such as the case of Batam, Boebligen (Germany) or Drachten (Netherlands) sites, as the environmental impact for nature and society, and therefore our reputation, will be most impacted in case of an environmental incident.

Chronic Physical Risks

According to TNFD guidance, chronic risks are characterized by gradual changes to the state of nature. Examples include scarcity of materials due to resource depletion, or soil degradation as a consequence of inadequate waste disposal. Each of these risks will slowly unravel with no clear start and end point. As such pinpointing, defining, and determining the root causes is a matter of perspective. This section reflects Philips perspective which might differ from that of other impacted stakeholders.

To start, the chronic peril of water stress and depletion emerges as a concern, its root causes being closely linked to climate change, escalating population dynamics, ecosystem degradation, and water pollution limiting the availability of fresh water. As climatic patterns shift and intensify, accompanied by the rapid expansion of human habitation, the demand for freshwater resources spirals, putting a strain on the Earth's hydrological systems. These imperative challenges not only contribute to the risk of water scarcity but also serve as antecedents to the phenomenon of desertification, wherein arable and fertile land degrades to arid conditions.

Philips is not a water-intensive company. However, several of our manufacturing sites are located in water-stressed regions, such as Ontario, Colorado Springs (United States), Pune, and Haifa (Israel). Using the WRI [Aqeduct tool](#), we identified the water withdrawn from areas with high baseline water stress across all of Philips' industrial operations. The analysis revealed that approximately 13% of our industrial sites are situated in areas with extremely high (>80%) baseline water stress in the short-term. Pairing this with medium- and long-term climate hotspot analysis, we can conclude that all our sites, except Pune, will experience prolonged droughts. Most notably Colorado Springs and Haifa are expected to face drought conditions for over 6 months annually in the long-term. This is an increase of around 3 months compared to the reference period. Despite this, the impact (of total water withdrawal) from these operational sites is limited.

In 2023, water usage at our manufacturing sites is primarily attributed to the electroplating process, purification processes, and cooling. The remaining proportion of water usage is mainly dedicated to domestic purposes such as canteens, toilets, and showers. The risk of desertification and water stress is therefore not a Philips specific risk but rather a societal risk. As a responsible company we have still set targets to reduce our 2025 water withdrawal by 5% compared to our 2020 baseline. We are also recognized by the international non-profit organization CDP, making it to the CDP "A-list" for water in 2023. For more detailed information, please refer to Section 5.2, "Environmental performance", of the Annual Report 2023.

Next, a critical long-term risk relates to resource depletion. Philips procures a wide range of resources from various different locations around the globe. Disruptions in the sourcing of these resources could expose the company to supply chain challenges. For instance, in the short term our sales have already been adversely affected by the shortage of electronic components. The current scarcity in semiconductors, driven by reduced supply of critical raw materials and geopolitical concerns, poses a challenge to Philips. Continued scarcity may lead to increased lead times and variable costs, negatively impacting our production capacity. With increased pressure on ecosystem services due to land use change this is expected to become more material in the medium- and long-term.

As immediate response we have been performing Life-Cycle Assessments (LCAs) since 1990 for our products and parts that we put on the market. For seven years we have also standardized these findings through our Environmental Profit & Loss (EP&L) account thus quantifying the hidden environmental cost associated with the sourcing, processing, use and disposal of said products. We therefore have a good understanding of the welfare loss attributed to our economic activities. By further leveraging the midpoint level approach we are capable of identifying the specific relationship of certain materials to the various environmental flows. We can for example determine the exact impact of the sourcing of a certain metal on ecotoxicity or climate change. This informs our strategy by highlighting key materials of concern and emphasizing high impact midpoints.

In 2012, we also launched our global circular economy program, using the circularity principles of 'use less, use longer and use again'. Together with our customers and suppliers we are committed to reducing our material footprint, a fact reaffirmed by our Environmental policy. In line with our fully circular operations ambitions, Philips applies Lean methodologies to improve processes, and continuously reduce the environmental footprint across our sites. We retain as much as possible material value of our waste stream through responsible waste management and increasing circular practices at our sites. We team up with our supply chain partners to find circular solutions for discarded material for example in the "waste to value" initiative. For inbound supplier packaging, we replace single use packaging with more sustainable solutions, like reusable boxes to contribute to our packaging waste ambitions from recycling to reuse and reduce. Across Philips' portfolio, our businesses are contributing to providing consumers and customers with products, services and solutions contributing to circular practices that also reduce carbon emissions. We do this by reducing the use of virgin materials, for example through using recycled content, innovative service-based models, optimizing use and lifetime of products and recirculating materials through responsible end-of-use management.

Furthermore, we are optimizing our supplier base, manufacturing, and warehousing footprint to enable agile responses to shift in demand and supply, as well as a changing geopolitical risk landscape. Philips is engaging with senior government officials, strategic suppliers, and foundries to prioritize healthcare supplies, directly working on component issues across all tiers of suppliers and diversifying sourcing of high-risk components. Philips is making balanced investments in global and local supply chain capabilities to reduce dependencies and lead times, and to meet local market requirements.

Transition Risk and Opportunities

The scenario

In accordance with ESRS requirements, we evaluated Philips' exposure to nature-related transition risks using a nature-positive scenarios, specifically SSP1-RCP1.9 and 2.6, often referred to as 'Taking the Green Road.' These scenarios envision a swift adoption of the circular economy, marked by immediate, rapid, and large-scale reductions in greenhouse gas emissions and material demand. Achieving this would necessitate an extraordinary global effort, with total global CO₂ emissions projected to decrease by approximately 25% by 2030 and around 50% by 2035, thereby limiting global warming to 1.5°C over preindustrial temperatures with only limited overshoot. While SSP1-RCP1.9 and 2.6 are typically more focused on emissions than on nature, for this report, we assume that these scenarios encompass nations acting immediately to reduce their impact on nature and prevent the loss of ecosystem services.

While this level of warming may increase the frequency and severity of extreme weather, it helps to avoid more severe climate impacts. Common resources are managed through tri-partite collaboration, allowing nature to recover and thrive. Effective international cooperation, stringent environmental laws, regional policies, and subsidies emphasize sustainable development. Consumption follows the principles of reduce, reuse, and recycle, with research focused on low-carbon and energy-efficient innovations.

Aligned with the physical risk section and its corresponding pessimistic scenario, the scenarios used for the transition section, SSP1-RCP1.9 and 2.6, provide an optimistic yet challenging socio-economic overview of the circumstances Philips might encounter in its transition to a circular economy and in achieving its aligned SBTi targets. For more detailed information on these scenarios, please refer to [Chapter 4 of the Sixth Assessment Report of the IPCC](#).

Under the above-mentioned conditions, we assessed transition risks across the short-, medium-, and long-term. Please note that the transition risk categories correspond to those proposed by the ESRS. As a result of our transition risk assessment, we provide a qualitative pre-assessment in the following table and text, illustrating Philips' potential risks within a nature-positive scenario. For clarity, we differentiate between Upstream, Operations, and Downstream. These risks have been evaluated through interviews conducted with internal subject matter experts.

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Philips Nature related transition events

Transition domain	Event	Upstream	Operations	Downstream
Technology	Substitution of products and services with lower nature impact	Challenges related to the sourcing of raw materials and components that align with the lower impact on nature	Obstacles in adapting manufacturing processes and facilities to accommodate the substitution of products and services with lower impact on nature	Technological limitations in balancing transition towards more nature-friendly alternatives with the need to maintain product quality and performance
Market	Market signals	The availability and cost of raw materials and components necessitate a reevaluation of suppliers and materials to adapt to evolving environmental standards	Internal processes and costs associated with manufacturing and producing healthcare and personal health products	Increased costs of raw materials may influence product pricing, and higher demand for less resource-intensive healthcare and personal health solutions
Reputation	Increased stakeholder concern and pressure	Perceived shortcomings in commitment related to ecosystem degradation and resource usage of suppliers	Visible deficiencies in sustainable manufacturing methods, resource use, or waste management strategies	Failure in delivering expected sustainable solutions may hinder the establishment of positive relationships with external stakeholders
Policy and Legal	Enhanced reporting obligations	Challenges in ensuring that upstream partners adhere to enhanced reporting obligations, including those related to circular economy, biodiversity, and ecosystems degradation	Continuously shifting guidelines and standards increasing potential of noncompliance	Exposure to litigation due to product sustainability claims
	Mandates on and regulation of existing products and services	Challenges associated with complying with mandates and regulations that prohibit the extraction and use of non-renewable resources	Adjustments in manufacturing processes, waste treatment (including hazardous waste and non-hazardous waste management) to align with regulatory standards	Need to adapt product offerings to comply with minimum regulatory requirements

Technology

Philips faces technological climate transition events involving risks and opportunities arising from the convergence of advancing technologies and the worldwide move towards sustainability. In the upstream domain, the adoption of sustainable practices and green technologies has the potential to disrupt the supply chain for raw materials and components. The challenges may include identifying suitable alternatives with environmental footprints, ensuring these substitutes meet the necessary quality and safety standards, and addressing potential cost implications associated with the adoption of new technologies. However, successfully managing this transition risk presents an opportunity for us, with our ambitious **circular economy program**, which aims to decouple economic growth from the use of natural resources and ecosystems. In 2025, we aim to generate 25% of our revenue from circular products, services and solutions.

Within our own operations, we face technological nature risks that impact our daily processes. The ongoing transition to a low-carbon and more sustainable economy requires adaptations in manufacturing practices. Despite achieving carbon neutrality within our operations, we constantly need to improve the environmental performance of our manufacturing facilities and focus on most of the contributors to climate change, but also address water, recycling of waste and chemical substances. For more information on our Sustainable Operations, please refer to section 13.3.3 Sustainable Operations of the Annual Report 2023.

Downstream, Philips is committed to sustainable innovation while acknowledging existing technological constraints. We adapt our product offerings to meet evolving market demands, changing consumer preferences, and upcoming regulations focused. This includes providing a diverse range of environmental solutions through the incorporation of EcoDesign principles in both our Personal Health and Health System divisions. Introduced in 1994, EcoDesign aims to holistically reduce the total environmental impact throughout the product development process. Given that approximately 80% of a product's total environmental impact is determined during the design phase, EcoDesign plays a crucial role in supporting our customers, hospitals, and partners, presenting a significant opportunity for the company. In 2023, Circular Revenues amounted to 20% of sales. Over the past five years, the sales growth of our Green Product portfolio has surpassed the overall sales growth of Philips.

Market

Market transition events for Philips involve shifts in industry dynamics that impact our positioning and competitiveness. Upstream, these risks may manifest as higher prices for raw materials and components, potentially affecting the company's cost structure and overall supply chain resilience. Historical disruptions in production and shipping from Asian countries have disproportionately impacted our business, particularly in the face of intensified global supply chain issues, such as the shortage of electronic components. The current scarcity in semiconductor availability, driven by increased global demand, poses a significant challenge for Philips as a health technology company dependent on semiconductors. Continued scarcity may lead to increased lead times, negatively impacting our production capacity. However, with a presence in over 100 countries, our global footprint positions us to navigate adverse local market developments effectively. Additionally, we optimize our integrated supply chain organization, supplier base, and global manufacturing footprint to facilitate agile responses to shifts in demand and supply globally.

Operational market risks for Philips are intricately tied to our vision and strategy, aligning with our internal standard way of working. The company may encounter challenges in fostering agility and efficient processes in a dynamic and uncertain market setting. Maximizing the lifetime value of our products and solutions while minimizing the use of new materials and resources helps to address these concerns. To ensure sustainability is integrated into our innovation processes, covering all aspects of product development and design, including recyclability and chemicals management, all businesses and functions have set KPIs to manage and steer them in the right direction. Group Sustainability also engages with each business monthly to ensure sustainability is embedded in the strategic outlook and is a topic of discussion.

Downstream, there is an increasing pressure on hospitals to decarbonize. Globally, healthcare systems contribute over 4% to total CO₂ emissions, with this figure rising to approximately 10% for most industrialized nations, surpassing emissions from both the aviation and shipping sectors. Philips, recognized as a health technology company driving systemic change towards more sustainable and equitable patient care, sees this trend as a significant opportunity. As case studies, in 2023, we established strategic partnerships with the **Champalimaud Foundation** and **Vanderbilt University Medical Center**, supporting them in achieving sustainability targets through a suite of health technologies and innovations. Recent joint research conducted by Philips and Vanderbilt reveals how the decarbonization of healthcare not only aligns with environmental goals but also **contributes to cost reduction**. The assessment indicated that circular business models, such as upgrades, can reduce total cost of ownership of an MR system by up to 23% and carbon emissions by 17%, and for CT, refurbished systems and equipment upgrades can contribute to reducing costs of ownership by up to 10% and 8% respectively, and reducing carbon emissions by 6% and 4% respectively.

Similarly, our personal health divisions are facing increased demand for greener products to align with new requirements from retailers. Our Philips **Green Products** are designed to minimize their environmental impact, concentrating on four key areas: Energy Efficiency, Respectful Packaging, Circular Design, and Hazardous Substances.

Reputation

Reputational transition events for Philips involve potential negative impacts on the company's image and being under scrutiny from stakeholders, encompassing customers, communities, and society at large, particularly regarding ESG-related matters. Upstream reputational risks are associated with the company's ties to suppliers, partners, and the broader supply chain. Any misalignment with environmentally responsible practices among upstream entities could lead to reputational challenges for Philips. To mitigate this, we have established clear **policies**, including a Supplier **Sustainability Declaration, Regulated Substances List, and Environmental Policy**, to ensure our suppliers meet required sustainability standards. We are committed not to purchase raw materials, subassemblies, or supplies, which we know contain conflict minerals. We believe that a multi-stakeholder collaboration in the responsible sourcing of minerals is the most viable approach for addressing the complexities of minerals value chains, for instance through the the European Partnership for Responsible Minerals (EPRM) or the Responsible Minerals Initiative (RMI). Our commitment to transparency and engagement with a diverse range of stakeholders allows us to identify issues and opportunities, gaining insights that inform the refinement of **supplier sustainability strategy**. We then translate this strategy into dedicated programs aimed at helping our suppliers enhance their social and environmental performance.

Operational reputational risks center around the company's internal processes and practices. Failure to adopt and enforce pollution prevention and control measures within our own operations can negatively impact the brand image. This includes considerations such as waste management, energy efficiency, and general sustainability in manufacturing practices. We address these through our Sustainable Operations program, which aims to improve the environmental performance of our manufacturing facilities. This program, among other things, addresses energy management, water usage, waste recycling, and chemical substance usage. For more information on our performance, please refer to Section 5.2, "Environmental performance", of the Annual Report 2023.

Downstream reputational risks involve how Philips is perceived by end-users, customers, and the communities we serve. Shifting societal expectations around environmental responsibility may pose challenges if our products are not perceived as contributing to pollution prevention and control efforts, impacting market share, brand perception, and overall competitiveness. To address this, we have elevated our 2025 ESG commitments and adopted a comprehensive framework, regularly monitoring progress and assessing risks aligned with our strategy. Externally, our environmental

leadership is recognized, with Philips being the **first health technology company** to have its entire value-chain CO₂e emissions reduction targets approved by the Science Based Targets initiative (SBTi). In 2023, Philips was also awarded 'double A' score by global environmental non-profit CDP for leadership in corporate transparency and performance on climate change and water security.

Policy and Legal

Policy and legal risks for Philips involve the potential impact of evolving regulations and legal frameworks related to environmental and sustainability practices, which may necessitate significant adjustments to operations and compliance procedures. In this report, we have elaborated on two potential transition events.

Enhanced material flow reporting obligations

Upstream risks entail challenges related to reporting emissions associated with the supply chain, encompassing raw material extraction, manufacturing of components, and transportation of goods. Compliance with enhanced reporting obligations upstream may necessitate heightened transparency and collaboration with suppliers. We engage, support and collaborate with our suppliers in their pursuit of continuous improvement in social and environmental performance. For example, we set clear targets and provide timely progress updates. We provide tailor-made training and coaching on specific social, environmental and governance issues. And we audit supplier performance, crucially providing proper support to help non-compliant suppliers take corrective action.

Operational risks pertain to emissions reporting within the company's own processes and facilities. Compliance with more stringent reporting obligations may necessitate the implementation of advanced monitoring systems, data collection methodologies, and enhanced record-keeping practices to accurately measure and report. In various jurisdictions, ESG disclosure requirements are currently being drafted. In Europe, the Corporate Sustainability Reporting Directive and European Sustainability Reporting Standards have been approved. Nonetheless, Philips has a strong track record in ESG disclosures, often ahead of legislation, and has been closely involved in the development of ESRS. The company already has reasonable assurance on all its ESG disclosures and runs a project to meet the increased requirements for ESRS.

Downstream risks focus on emissions reporting associated with product usage, end-of-life disposal, and the broader impact of the company's products on the environment. At Philips, we view transparency as an opportunity and a **guiding principle in an evolving ESG landscape**. Leveraging our extensive experience in environmental and social impact measurement and providing transparency on governance, Philips actively collaborates with organizations such as the International Financial Reporting Standards (IFRS) Foundation, the World Economic Forum (WEF), and the European Union. Our aim is to play an active role in driving the evolution towards a standardized ESG reporting framework.

Mandates on and regulation of existing products and services

Upstream risks relate to the impact of regulatory changes on the supply chain, including the sourcing of raw materials and components. Compliance with new mandates may require adjustments in supplier relationships, materials sourcing, and overall supply chain management to meet evolving regulatory standards. Therefore, we define processes such as the Philips sustainable packaging process, which is compliant with all applicable packaging standards, including but not limited to Extended Producer Responsibility (EPR) for Packaging, Product Packaging Waste Regulation (PPWR), and ESRS.

Operational risks center around the implications of regulatory mandates on the manufacturing processes and facilities. Compliance may necessitate modifications to production methods, equipment, and quality control measures to align with updated regulations. This includes ensuring that existing products meet new environmental and sustainability standards. To address this risk, Philips continuously aims to enhance its Green Products portfolio, designed to reduce the environmental impact of products, focusing on four key areas: energy efficiency, respectful packaging, circular design, and hazardous substances. With this initiative, our goal is not only to meet the minimum requirements but also to design all new product introductions in line with our EcoDesign requirements by 2025. Additionally, we closely monitor and incentivize compliance with new regulations, such as the EU Battery Regulation and Right to Repair.

Downstream risks involve the regulatory impact on the products and services offered to end-users. Compliance with mandates and regulations may necessitate product modifications, updates, or even discontinuation of certain offerings. For example, in our effort to address such risks, we performed an assessment of our Scope 3 category, 'Use of Sold Products,' estimating the lifetime energy consumption and applying the Life-Cycle Assessment (LCA) methodology on a country-by-country basis. In 2023, we determined that the locked-in emissions from the use of sold products amounted to 3,066 kilotonnes CO₂-e, approximately 7.3 times more than our entire operational carbon footprint. Circular business models – such as offering customers access to, rather than ownership of, products – open up new opportunities for growth and cost savings, reduce resource risk, and facilitate smart asset management. We collaborate closely with our customers, (non-) governmental organizations, and other stakeholders, such as the Ellen MacArthur Foundation, to drive the adoption of circular thinking. Our goal is not only to meet the new minimum requirements of products and services but also to actively support the transition to a circular economy, alleviating the pressure on our ecosystems and climate.

Philips Nature Pathway

By joining forces with various stakeholders from our entire value chain, Philips can magnify its impact and collectively reduce our shared impact on nature, restoring ecosystem services and biodiversity. This will help create a sustainable and more resilient healthcare industry that adds value for our customers, partners, and society as a whole. To deliver on this commitment, we drive action by:

- Increasing circular design of software and hardware to reduce the use of (virgin) materials, including limiting the use of critical raw materials, increasing the use of secondary reused, renewable and recycled content in materials, and limiting the content of hazardous substances.
- Reducing our chemical footprint by reducing the use of hazardous chemicals and / or replacing these by greener alternatives.
- Dematerializing through digital transformation such as virtual care and shift towards cloud.
- Ensuring circular manufacturing & supply to increase circular practices at our sites and responsible waste management according to the waste hierarchy.
- Providing circular in-use management to retain & enhance value of materials, for example through optimizing use and extending product lifetime.
- Ensuring circular end-of-use management to responsibly recirculate products and parts at the end of their use.

As part of our Nature Risk Management Program, in the coming year, we will now further deep dive into Philips' critical physical and transition risks, focusing on quantifying the impacts of each risk. As such, we will be able to emphasize the need for immediate action to prevent a nature catastrophe. We will also continue to advocate internally as well as externally for the pressing need for change and strengthen our collaboration with suppliers and customers to build a resilient, future-proof business model built on the principles of 'use less, use longer, and use again'.

