

## ASSESSMENT

1 March 2024



Send Your Feedback

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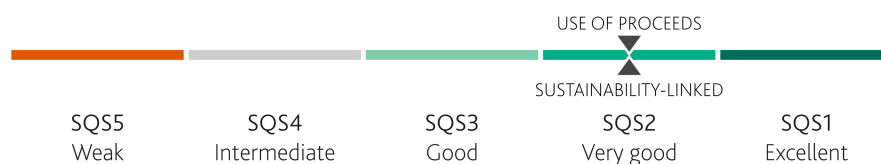
## Royal Philips N.V.

Second Party Opinion – Sustainable Financing Framework  
Assigned SQS2 (Use of Proceeds) and SQS2 (Sustainability-Linked)

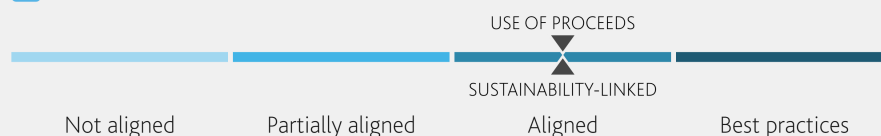
### Summary

We have assigned an SQS2 sustainability quality score (very good) to the use-of-proceeds portion and an SQS2 sustainability quality score (very good) to the sustainability-linked portion of Royal Philips N.V.'s sustainable financing framework dated March 2024. The framework covers two eligible use-of-proceeds categories and five key performance indicators (KPIs). For the use-of-proceeds portion, the framework is aligned with the four core components of the ICMA's GBP 2021 and SBP 2023, as well as the LMA's GLP 2023 and SLP 2023, and demonstrates a significant contribution to sustainability. For the sustainability-linked portion, the framework is aligned with the five core components of the ICMA's SLBP 2023 and LMA's SLLP 2023, and demonstrates a significant contribution to sustainability.

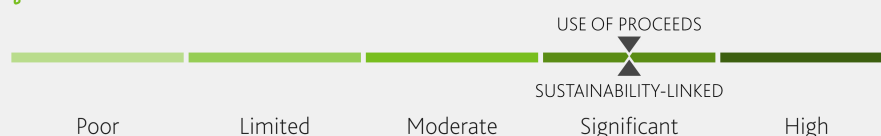
### Sustainability quality score



### Alignment with principles



### Contribution to sustainability



POINT-IN-TIME-ASSESSMENT

## Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of Philips' sustainable financing framework, including its alignment with the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (with June 2022 Appendix 1), Social Bond Principles (SBP) 2023 and Sustainability-Linked Bond Principles (SLBP) 2023, as well as the Loan Market Association's (LMA) Green Loan Principles (GLP) 2023, Social Loan Principles (SLP) 2023 and Sustainability-Linked Loan Principles (SLLP) 2023. Under the framework, the company plans to issue use-of-proceeds green, social or sustainability bonds with the aim of financing projects comprising one eligible green category and one eligible social category, as outlined in Appendix 2 of this report. In addition, the company has selected five sustainability KPIs for potential issuance of sustainability-linked bonds in the areas of greenhouse gas (GHG) emissions reduction (KPI 1 and KPI 2), circular revenue (KPI 3), lives improved (KPI 4) and the share of women in management roles (KPI 5), as outlined in Appendix 3 of this report. We have assessed the alignment with principles and contribution to sustainability components of both the use-of-proceeds and sustainability-linked portions of the financing framework independently, resulting in two separate SQS scores.

Our assessment is based on the last updated version of the framework received on 1 March 2024, and our opinion reflects our point-in-time assessment<sup>1</sup> of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

## Issuer profile

Headquartered in Amsterdam, the Netherlands, Royal Philips N.V. is one of the world's leading health technology companies. The company produces a diverse range of products across its three key segments Diagnosis and Treatment, Connected Care and Personal Health. In 2023, the company generated revenue of around €18.2 billion. It operates in more than 100 countries worldwide with a workforce of around 70,000 as of the end of December 2023. Philips is a publicly listed company. The company's Environmental, Social and Governance (ESG) strategy involves the improvement of lives, including of people living in underserved communities, the promotion of a circular economy and the reduction in its operational GHG emissions footprint. Projects and products contributing toward the achievement of these targets are financed with proceeds from the company's Green and Sustainability Innovation Bonds since 2019.

## Strengths

- » Proceeds raised under the use-of-proceeds portion of the framework are likely to have a significant impact in the areas of circular economy and access to essential services.
- » Reporting on allocation, impact and KPI performance will be detailed and externally verified.
- » KPIs 1 and 2 are part of the company's ambitious decarbonization pathway, which is externally validated to be aligned with a 1.5°C scenario.
- » For the use-of-proceeds portion of the framework, the decision-making process around project and product eligibility is clearly defined, detailed and includes relevant expertise.

## Challenges

- » Despite adequate ESG risk management, the company's track record in terms of product safety is of mixed quality.
- » Lack of an explicit commitment to not invest unallocated proceeds in GHG-intensive or otherwise controversial activities poses a residual risk.
- » KPIs 3 and 4 are considered nonstandard KPIs, and they rely substantially on internal definitions, limiting the ability to benchmark them against sector peers.

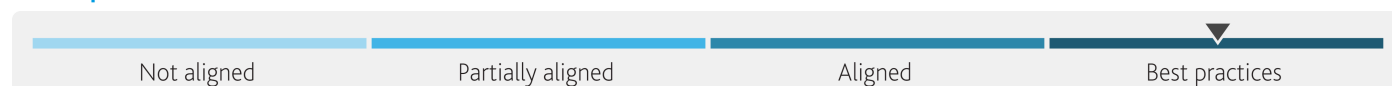
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## Alignment with principles - Use of proceeds

Philips' sustainable finance framework is aligned with the four core components of the ICMA's GBP 2021 (with the June 2022 Appendix 1) and SBP 2023, as well as the LMA's GLP 2023 and SLP 2023:

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| <input checked="" type="checkbox"/> Green Bond Principles (GBP)  | <input checked="" type="checkbox"/> Social Bond Principles (SBP)      | <input checked="" type="checkbox"/> Green Loan Principles (GLP)       |
| <input checked="" type="checkbox"/> Social Loan Principles (SLP) | <input type="checkbox"/> Sustainability-Linked Bond Principles (SLBP) | <input type="checkbox"/> Sustainability Linked Loan Principles (SLLP) |

### Use of proceeds



#### Clarity of the eligible categories – BEST PRACTICES

Philips has clearly communicated the nature of expenditures, which will be on assets, capital spending or operational expenditures. The company has further clearly defined the eligibility and exclusion criteria for both eligible categories. The locations of eligible assets or projects are defined at the regional level, and include various countries in which the company operates.

#### Clarity of the environmental or social objectives – BEST PRACTICES

The company has clearly outlined relevant environmental and social (E&S) objectives associated with each of the eligible categories, which are coherent with international standards. These objectives are the promotion of a circular economy and the provision of access to essential services. The framework has referenced relevant United Nations' (UN) Sustainable Development Goals (SDGs), and environmental objectives in the European Union (EU) Taxonomy to articulate the eligible category objectives.

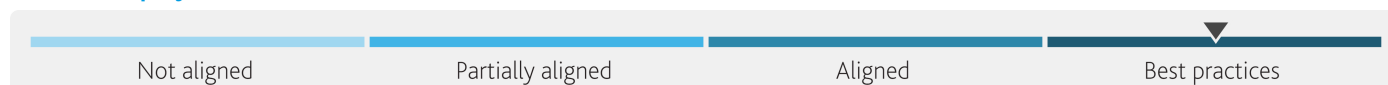
#### Clarity of expected benefits – BEST PRACTICES

Philips has clearly identified the E&S benefits for both eligible categories. Furthermore, the issuer expects to use the proceeds for a mix of financing and refinancing, and has stated that it will disclose the estimated share of refinancing before issuance of individual instruments. Philips distinguishes between asset values and capital spending, which shall qualify with no lookback period, and operational expenditures, which qualify for refinancing with a maximum three-year lookback period from the time of issuance of the respective instruments.

#### Best practices identified - use of proceeds

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

## Process for project evaluation and selection



### Transparency and quality of the process for defining eligible projects – BEST PRACTICES

Philips has established a clear process for evaluating and monitoring eligible projects, which is formalized in its publicly available framework. The roles and responsibilities for project evaluation and selection are clearly defined, and include relevant expertise. The company has established a sustainability group that, together with representatives from one of the company's four innovation sites in the Netherlands, the US, India and China, identifies eligible projects under Philips' Sustainability Programs. Identified projects are recommended to the treasury department, which, on an annual basis and in cooperation with the board of management, defines a portfolio of eligible projects to which proceeds should be allocated. Monitoring of continued eligibility of projects is carried out via audited annual reporting with no foreseeable end date and thereby inherently over the life of any instrument issued under this framework. Projects that cease to comply with the eligibility criteria will be removed from the portfolio of eligible projects. Traceability of the decision-making process is embedded in the company's audited Excellence Process Framework.

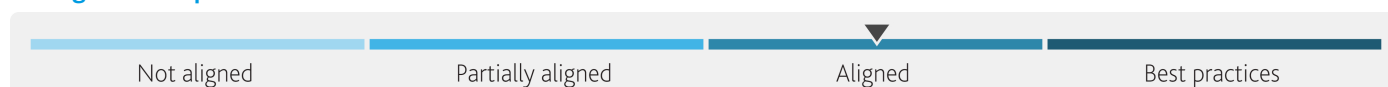
### Environmental and social risk mitigation process – BEST PRACTICES

The E&S risk mitigation processes applied are publicly disclosed via formalized policies and guidelines. The process implemented is continuous, and includes a combination of identification, management, mitigation, monitoring and control measures. In addition, ESG risks are integrated in Philips' Enterprise Risk Management process. Identification and continuous monitoring of ESG risks is performed by the company's Enterprise Risk Management, Internal Audit and the Sustainability Group.

### Best practices identified - process for project evaluation and selection

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » ESG controversies are monitored

## Management of proceeds



### Allocation and tracking of proceeds – BEST PRACTICES

Philips has defined a clear process for the management and allocation of instrument proceeds in the framework. The company's Treasury Group, in collaboration with the Sustainability Group, will allocate and manage proceeds on a portfolio basis, and ensure that an amount equal to all net proceeds raised is allocated to the eligible project portfolio. Adequate monitoring is ensured via the internal accounting system. The balance of the eligible proceeds will be adjusted annually. The allocation period will be shorter than or equal to 24 months, in line with best practices observed in the market.

### Management of unallocated proceeds – ALIGNED

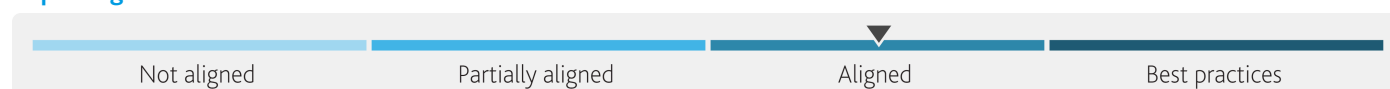
Temporarily unallocated proceeds will be managed in the company's treasury liquidity portfolio or any treasury business at the issuer's discretion. The excess cash is allocated to short-term money market products. The framework lacks an explicit and formalized

commitment to not invest temporary unallocated proceeds in GHG-intensive or otherwise controversial activities, which is a feature usually observed in frameworks that adhere to market best practices. In case of postponement or divestment of an eligible project, the issuer has confirmed that it will reallocate proceeds to other projects eligible under the framework.

#### Best practices identified - management of proceeds

- » Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- » Short allocation period, for example typically less than 24 months
- » Commitment to reallocate proceeds to projects that are compliant with the framework

### Reporting



#### Transparency of reporting – ALIGNED

Philips will publicly report on the allocation of proceeds and the E&S impact of its eligible projects at the category level on an annual basis. The reports will be available on the company's website. The issuer commits to allocation and impact reporting until full allocation, and may continue reporting on these indicators until maturity of instruments, but does not formally commit to do so. Similarly, the issuer may report on significant developments, issues or controversies related to eligible projects or assets, but does not commit to report under all circumstances. The selected reporting indicators are clear, relevant and exhaustive. The methodologies and assumptions used to report on the E&S impact of eligible projects are publicly disclosed on the issuer's website.

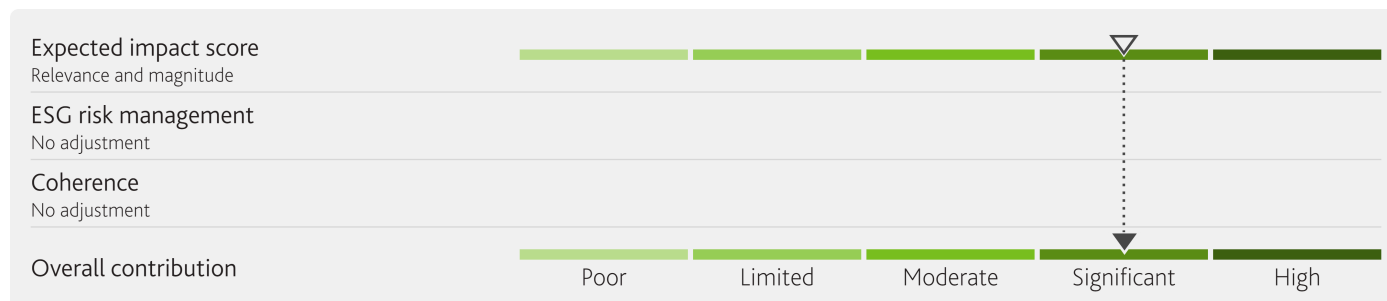
Philips' allocation reports will be reviewed by an external auditor annually and in case of significant changes until full allocation. Similarly, the company's impact reporting will be externally verified until full allocation.

#### Best practices identified - reporting

- » Reporting on allocation of proceeds and benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- » Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- » Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

## Contribution to sustainability - Use of proceeds

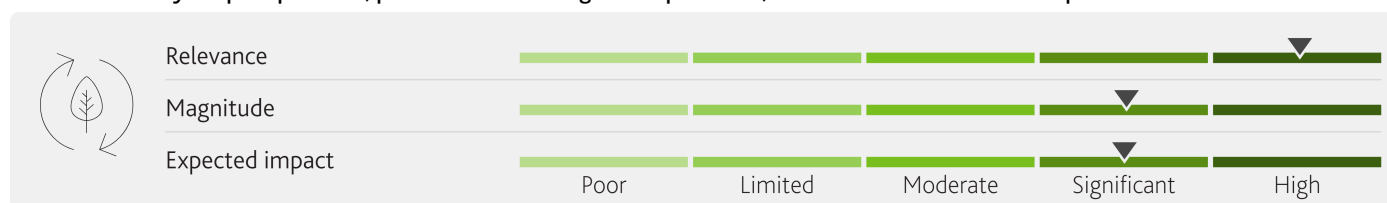
The use-of-proceeds portion of the framework demonstrates a significant overall contribution to sustainability.



### Expected impact - Use of proceeds

The expected impact of the eligible projects on the E&S objectives is significant. Based on information provided by the issuer, we have used the estimated allocation of proceeds to weight the categories, with the green category (circular economy adapted products) receiving around one-third of the proceeds and the social category (access to essential services) receiving the remaining two-thirds of the proceeds.

#### Circular economy adapted products, production technologies and processes, and/or certified eco-efficient products



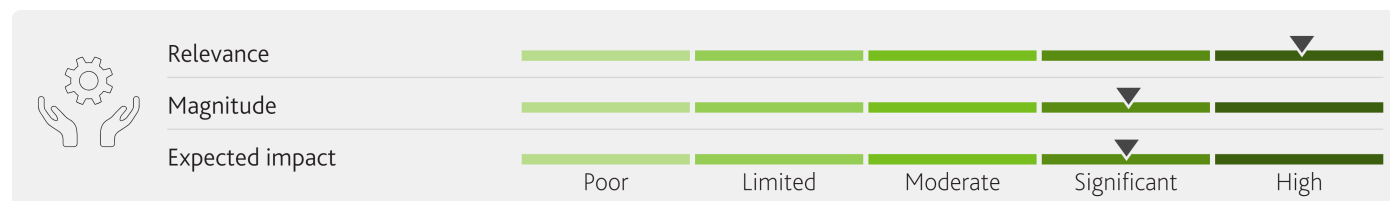
This eligible category consists of projects that contribute to circular revenue (also included in the sustainability-linked portion of the framework as KPI 3, see under "Contribution to sustainability - Sustainability-linked"), and toward EcoDesign products. A subset of these eco-designed products will fulfill a more ambitious set of criteria to qualify as what Philips denotes as "EcoHeroes". The issuer provided us with an estimated allocation of proceeds within this category between circular revenue projects, expenditures related to EcoDesign products that are not EcoHeroes and EcoHeroes projects, which was used to inform the consolidated score at the category level.

We regard all types of projects under this category to be highly relevant. Philips is a global company, and in all its major market segments, waste management, recyclability and reusability are considered relevant. Circular economy and eco-design considerations for products and solutions are highly relevant for the medical equipment sector. We note that "product design and life cycle management" is one of the most significant issues for companies in Philips' sector according to SASB Standards, which have been set by the International Sustainability Standards Board. We also note that small electronic waste (e-waste) is a serious issue, with 10.4 megatonnes (Mt) of e-waste generated in 2021 in the EU, Norway, Iceland and the UK alone, or 11.9 tons in the US in 2019. Circularity and eco-design are areas where agreed-upon international, or even regional or national, standards are often lacking, making it highly relevant for a company like Philips to set internal standards.

In terms of magnitude, we consider contemplated investments under this category to have a significantly positive long-term impact. In terms of the long-term impact of circularity projects, we consider some types of projects to be more impactful than others. Notably, eligibility criteria for some products (such as cloud software or telehealth solutions) are much looser than for plastic-containing hardware (see also under KPI 3). We also note the case-by-case internal assessment of eligible expenditures for circular revenue by the company's Sustainability Group, rather than using external criteria or standards, limiting transparency. For eco-designed products that are not part of the EcoHeroes subset, Philips' EcoDesign criteria are intended as a relatively ambitious baseline that complies with all applicable legal requirements, and Philips' policies and product requirements. By Philips' own standards, EcoDesign is not going above and beyond, as 100% of newly introduced products are intended to comply with these standards by 2025. The EcoHeroes subset of products is, however, considered to have a highly positive impact. These products must outperform in at least one of the focal areas,

which are energy, substance and material use, packaging, circularity and life-cycle impact, where the company has set detailed criteria for each.

#### Access to essential services: Healthcare



This eligible category consists of products and solutions related to Precision Diagnosis (PD), Image Guided Therapy (IGT) and Connected Care. Products and solutions related to maternal and personal care are excluded.

The solutions proposed address or are enabling activities that address a highly relevant need in the healthcare sector. PD is essential to support the healthcare sector because common diagnostic errors, such as inaccurate or delayed diagnosis, are prevalent, and late-stage diagnoses often culminate in reduced survival rates, augmented treatment morbidity and escalated healthcare expenditures. The role of imaging in the healthcare sector is also fundamental, extending beyond disease detection and diagnosis to encompass disease progression monitoring, treatment response evaluation and, increasingly, treatment guidance. Connected Care solutions are diagnostic, monitoring and clinical decision support solutions that help reduce healthcare costs and improve quality of life while increasing the convenience of services. This category also covers products and solutions that directly improve access to care for underserved communities, such as ultrasounds, and respiratory and heart-rate monitor devices. The relevance of this subcategory is high because it addresses specific illnesses present in the communities identified. In addition, most of the products sold globally belong to the Sleep and Respiratory Care business, which is highly relevant for both developed economies and emerging markets. Respiratory devices play a major role in the diagnosis and monitoring of respiratory illnesses, the fourth major cause of death worldwide<sup>2</sup>.

In terms of magnitude, we consider contemplated investments under this category to have a significantly positive long-term impact targeted at populations in significant need of support. The framework has a degree of clarity in terms of matching products with targeted populations. Monitoring, PD and IGT devices are mainly targeted at developed economies. The devices produced to directly improve access to care for underserved communities are accurately targeted at the populations that need the proposed products, as underserved communities are well identified with a sound methodology relying on World Health Organization data. However, the issuer could have specified further the targeted population by identifying specific communities where the products and solutions proposed by Philips would have had the highest impact.

#### ESG risk management - Use of proceeds

We have not applied a negative adjustment to the expected impact score for ESG risk management. The health technology sector is exposed to increased risks around product safety, particularly for products that are directly attached to or inserted into the human body. Philips' track record in terms of the production of such products has been of mixed quality in the past and below that of industry peers, as indicated by production suspensions, product recalls and medical device reports submitted to the US Food and Drug Administration, some of which include reports of deaths. In June 2021, the company's subsidiary Philips Respironics initiated a voluntary recall notification for certain sleep and respiratory care products in the US in response to identified potential health risks related to the polyester-based polyurethane sound abatement foam used in these devices. In response to the identified issues, the company has upgraded its overall approach on quality and regulatory, and patient safety, including a substantial overhaul of the quality and regulatory leadership team in pursuit of increased medical technology expertise, a strengthening of its post-market surveillance global complaint handling organization and the establishment of a patient safety advisory board. Recalled products are tested in cooperation with five certified testing laboratories and third-party experts, and are replaced. In addition, patient safety and quality considerations have been implemented into all employees' performance evaluations, and all employees complete mandatory training on the company's quality policy, which includes quality control and product safety. Beyond product quality, Philips has formalized its ESG risk management approach in various policies, such as the company's human rights policy, its environmental policy, its occupational health and safety policy, among others. Philip's EcoDesign Program ensures the company's compliance with all applicable legal requirements, relevant company policies and additional product-specific requirements, including assessments against comprehensive requirements on energy efficiency, regulated substances, packaging and circularity.

### Coherence - Use of proceeds

We have not applied a negative adjustment to the expected impact score for coherence. The eligible categories of the framework are in line with Philips' ESG commitments, which include achieving 100% of green/eco-designed revenue by 2025 and improving the lives of 2.5 billion people annually by 2030, including 400 million individuals in underserved communities. The company's revenue primarily comes from the Diagnosis and Treatment (51%) and Connected Care (25%) businesses, and the investments outlined in the framework are consistent with this business profile. From an environmental standpoint, the company has pledged significant commitments toward a circular economy and climate change mitigation by 2025. We consider that the eligible projects under this framework are material and consistent with the overall sustainability strategy, and address important sustainability issues of the sector.

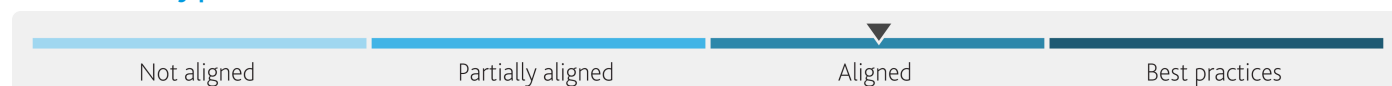


## Alignment with principles - Sustainability-linked

The sustainability-linked portion of Philips' sustainable finance framework is aligned with the five core components of the ICMA's SLBP 2023 and the LMA's SLLP 2023:

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| <input type="radio"/> Social Loan Principles (SLP) | <input checked="" type="checkbox"/> Sustainability-Linked Bond Principles (SLBP) | <input checked="" type="checkbox"/> Sustainability Linked Loan Principles (SLLP) |

### Selection of key performance indicators



#### Definition – ALIGNED

Philips has clearly detailed the characteristics of the KPIs, including the units of measurement, the rationale and process for the selection of the KPIs, the calculation methodologies and the scope. These details are publicly disclosed in the framework. The company has selected KPIs around scope 1 and 2 (KPI 1), and scope 3 (KPI 2) absolute GHG emissions, revenue related to circular economy adapted products (KPI 3), the number of beneficiaries from the sale of its healthcare-related products (KPI 4) and the share of women in leadership positions (KPI 5). The calculation of KPI 1 applies the market-based approach to measure scope 2 emissions (see analysis of KPI 1's expected impact for more details).

#### Measurability, verifiability and benchmark – ALIGNED

The KPIs selected are measurable and externally verifiable. The calculation methodologies are consistent, and the company commits to inform investors in case of any future changes. In case of recalculations, the external verifier will assess the consistency with the initial level of ambition. The definitions of KPIs 1, 2 and 5 are based on recognized metrics commonly used by the market to monitor and report GHG emissions and the share of women in leadership positions, allowing the KPIs to be benchmarked. KPIs 3 and 4 are considered nonstandard KPIs, and they rely substantially on internal definitions, limiting the ability to benchmark them against sector peers.

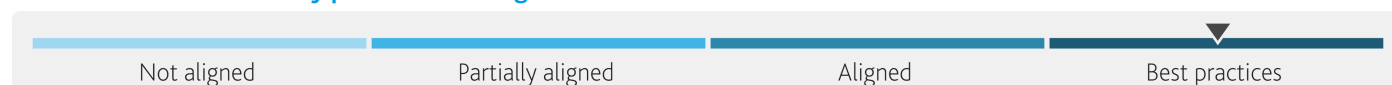
#### Relevance and materiality – ALIGNED

The selected KPIs reflect relevant sustainability challenges facing the company's sector, as well as relevant, core and important challenges for the issuer's sustainability and business strategy. Since the issuer commits to using KPIs 1 and 2 together in all instances, all KPIs represent full coverage of the respective sustainability issues. The selection of KPIs used in individual instruments will be communicated by Philips before issuance.

#### Best practices identified - selection of key performance indicators

- » There is continuity or traceability, with independent verifiers, in case of a change in the methodology used to measure KPIs
- » Disclosure of the externally verified historical performance of KPI(s); for example, over at least three years

### Calibration of sustainability performance targets



#### Consistency and ambition – BEST PRACTICES

Philips' sustainability performance targets (SPTs) are consistent with its overall sustainability strategy. The targets of all KPIs demonstrate efforts beyond a business-as-usual (BaU) scenario, although some SPTs indicate somewhat slower progress toward long-term targets than recently observed. Of note, absolute scope 1 and 2 GHG emissions, as defined under the SPTs of KPI 1, are derived from the relative reduction rates based on the 2015 baseline as verified by the Science-Based Targets initiative (SBTi). Therefore, short-

and medium-term SPTs in 2024, 2025 and 2030 can be achieved even in case of theoretical increases in scope 1 and 2 GHG emissions, while still being in alignment with the company's verified decarbonization trajectory (see analysis of KPI 1's expected impact for more details).

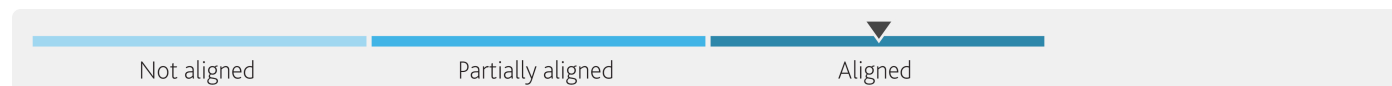
#### Disclosure – BEST PRACTICES

The timeline, baselines and trigger events are disclosed in the company's framework, and will be specified for individual instruments before issuance. All KPIs contain SPTs of sufficient frequency to allow investors to monitor the company's progress toward the defined targets. The issuer has shared the rationale for choosing the baseline years where relevant. The selected baselines are relevant and reliable.

#### Best practices identified - calibration of sustainability performance targets

- » Disclosure of the means for achieving the SPT(s) as well as their respective contribution in quantitative terms to the SPTs OR as well as any other key factors beyond the issuer/borrower's direct control that may affect the achievement of the SPT(s)
- » The means for achieving the SPT(s) are credible
- » Disclosure of the timeline, baseline and trigger events, including relevant intermediate targets
- » The selected baselines are relevant and reliable

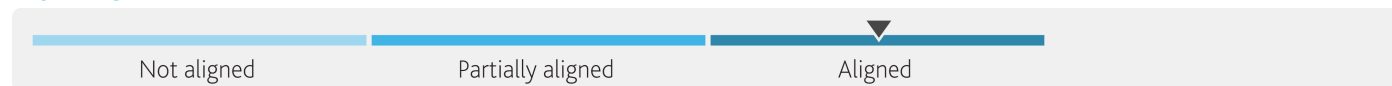
#### Instrument characteristics



#### Variation of structural characteristics – ALIGNED

The financial variation structure of the issuances is clearly defined and disclosed in the framework. The exact financial variation mechanism (e.g., a coupon step-up, premium or coupon step-down) and the applicable trigger event dates will be specified for each issuance in the instruments' transaction documentation. Although the framework refers to commercial paper, Philips has stated that this kind of instrument will not be issued under the sustainability-linked portion of the framework. There is no commitment to use multiple KPIs together in all instances.

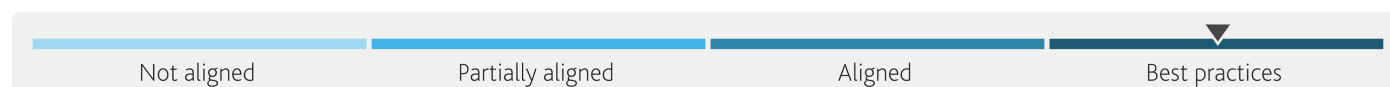
#### Reporting



#### Transparency of reporting – ALIGNED

Philips commits to report on the performance of its sustainability-linked instruments as part of its continuous annual reporting. Any significant change will also be reported, independent of whether or not it triggers a change in financial characteristics. The intended scope and granularity of the reporting are clear and cover the required elements, including information on the performance of the KPIs, potential recalculations or updates to the KPIs, and any relevant information that enables investors to monitor the level of ambition of the SPTs.

## Verification



### Verification process – BEST PRACTICES

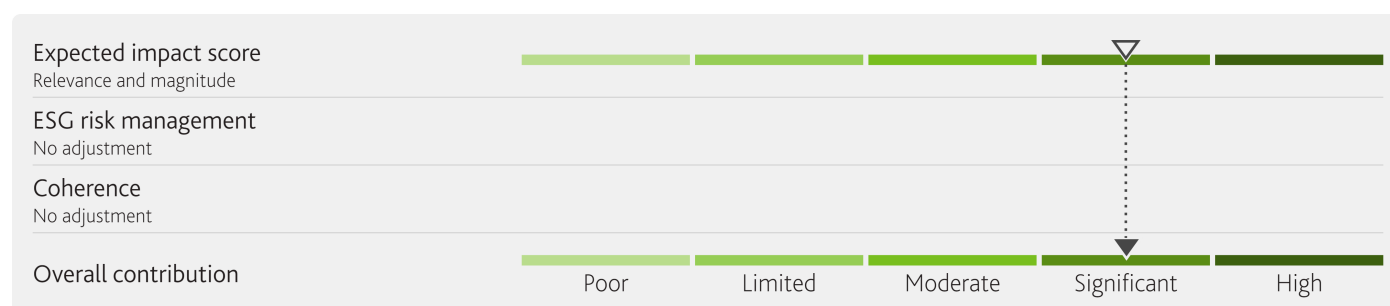
The performance of each KPI against its SPTs will be externally verified on an annual basis and in case of significant changes. The annual report will be audited by an independent external auditor, verifying the performance of the KPIs until the instrument's maturity. The reviews of the external verifier will be made available on Philips' website.

### Best practices identified - verification

» Verification will be conducted until maturity of the bond or loan

## Contribution to sustainability - Sustainability-linked

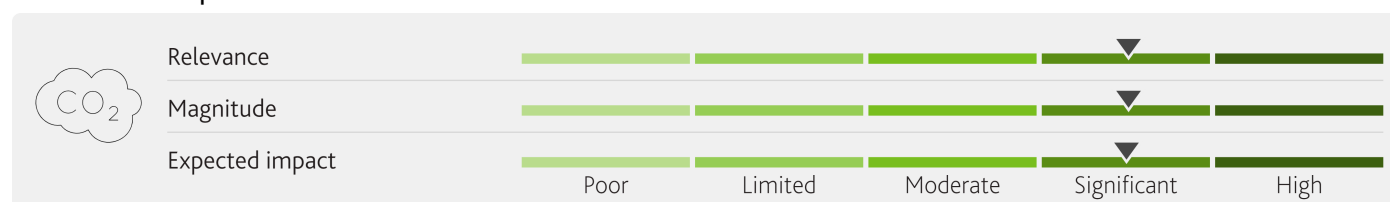
The sustainability-linked portion of the framework demonstrates a significant overall contribution to sustainability.



### Expected impact - Sustainability-linked

The expected impact of the KPIs and their SPTs on the sustainability objectives is significant. We have weighted all KPIs equally in our analysis of the consolidated expected impact. A detailed assessment is provided below:

#### KPI 1: Absolute scope 1 and 2 GHG emissions

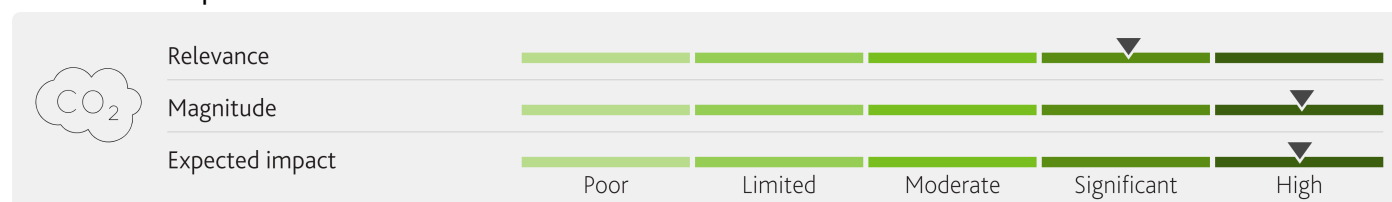


The relevance of KPI 1 is considered significant, based on our analysis of the materiality of the sustainability issue addressed to the company and its sector, and the coverage of the GHG footprint. According to the SASB Standards, GHG emissions are among the relevant environmental issues in the healthcare sector, which accounts for around 4.4% of global GHG emissions. Philips has identified climate change as a topic of substantial relevance in its materiality assessment, with significant importance to both internal and external stakeholders. In addition, Philips commits to always use KPI 1 (scope 1 and 2 emissions) and KPI 2 (scope 3 emissions) together, leading to a full coverage of the company's GHG footprint. We note that for KPI 1, the issuer applies a market-based approach to calculate scope 2 emissions, which does not necessarily reflect the actual energy usage of Philips accurately, as the company can claim the consumption of renewable energy via power purchase agreements and Renewable Energy Certificates, without this energy necessarily being consumed in the company's plants.

The magnitude of the SPTs, reflecting their ambition, is considered significant based on a combination of benchmarking approaches. Philips has significantly reduced its scope 1 and 2 emissions since 2015. We consider a continuation of this decarbonization trajectory along the levels verified by the SBTi to be ambitious. However, we note that short- and medium-term SPTs (for 2024, 2025 and 2030) are linked to absolute levels of scope 1 and 2 emissions that might be substantially higher than the 21,993 tonnes of CO<sub>2</sub>e registered in 2023. In other words, the issuer is highly likely to achieve these near-term SPTs, even without making any additional efforts or even in case of significant increases in scope 1 and 2 emissions. Philips may address this issue by setting new SPTs in instances where targets are already achieved as of the issuance date. The medium- to longer-term SPTs for 2035 and 2040 require additional reductions in absolute scope 1 and 2 emissions, but likely at a slower pace than the substantial reductions observed between 2015 and 2023.

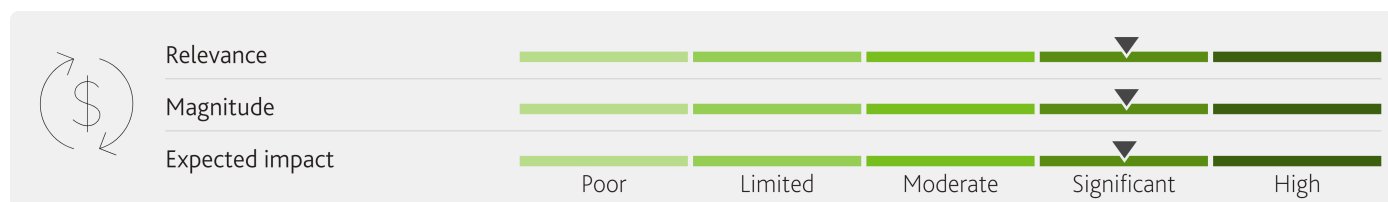
Among peers that have set reduction targets for absolute emissions, Philips' targets of a 75% decrease by 2025 and a 90% decrease by 2040 from a 2015 baseline are assessed to have superior ambition. We positively factor in the fact that Philips defines its SPTs in absolute terms (absolute scope 1 and 2 emissions), rather than using an intensity-based metric, which might significantly deviate from absolute reductions. On sector standards, Philips' scope 1 and 2 emissions reduction targets for 2025 and 2040 are validated by SBTi as being in line with a 1.5°C scenario. All interim SPTs are assessed to be in line with the 1.5°C scenario pathway. The means to achieve reduction in scope 1 and 2 emissions are credible, and include further increases in the share of renewable energy in district heating and cooling, and securing long-term delivery and quality of renewable electricity.

#### KPI 2: Absolute scope 3 GHG emissions



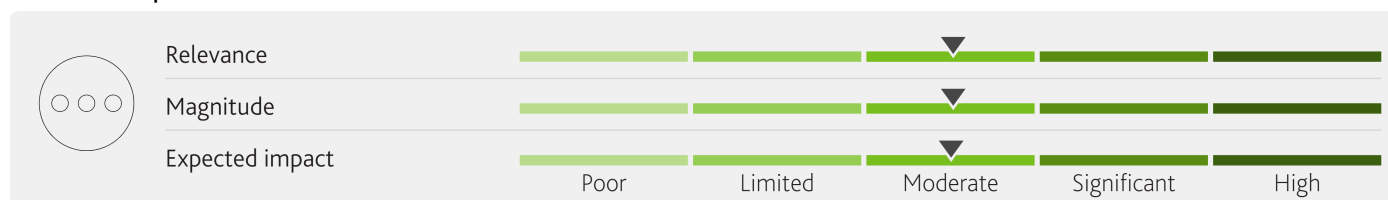
The relevance of KPI 2 is considered significant, based on our analysis of the materiality of the sustainability issue addressed to the company and its sector, and the coverage of the GHG footprint. For a detailed assessment of the relevance of the sustainability issue, please see the analysis under KPI 1. In terms of coverage, scope 3 emissions from purchased goods and services, upstream and downstream transportation, business travel and the use of sold products make up the vast majority (94%) of the company's total emissions. In addition, Philips commits to always use KPI 1 (scope 1 and 2 emissions) and KPI 2 (scope 3 emissions) together, leading to a full coverage of the company's GHG footprint.

The magnitude of the SPTs, reflecting their ambition, is considered high based on a combination of benchmarking approaches. Philips has made substantial progress in reducing its scope 3 emissions since 2020, decreasing these emissions by 7.7% annually, which is considered materially beyond a BaU scenario. The future pathway will take place at a slightly slower pace than recently observed, as expressed in the expected average annual reduction of 4.8% between 2023 and 2030. Among peers that have set reduction targets for absolute emissions, Philips' target of a 42% decrease by 2030 from a 2020 baseline is assessed to be of superior ambition. The fact that Philips has defined its scope 3 emissions reduction targets already distinguishes the company from average performers in the sector. Again, we positively factor in the fact that Philips defines its SPTs on absolute emissions reductions, rather than using an intensity-based metric, which might significantly deviate from absolute reductions. The SPTs under KPI 2 appear to be in line with the requirements of the most stringent sector standards. To date, the SBTi does not classify scope 3 targets by temperature. However, the SBTi mentions that it reviews scope 3 ambition to ensure it meets the temperature alignment or supplier engagement specifications outlined in the SBTi criteria. In addition, using the sector decarbonization approach, we consider the company's targets (scopes 1, 2 and 3) to be in line with a 1.5°C scenario. The company's various means for achieving its SPTs include the electrification of its leased car fleet, the promotion of rail over air travel and of ocean freight shipments over airfreight, as well as increasing the energy efficiency of its products during use phase as illustrated by the company's EcoDesign Program.

**KPI 3: Circular revenue**

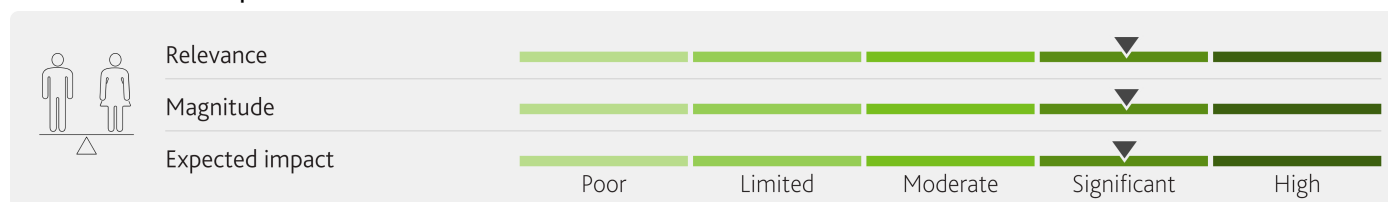
The relevance of KPI 3 is considered significant, based on its high materiality for the company and its sector, although we have some reservations with respect to its transparency. KPI 3 is an in-house metric defined by Philips to measure revenue related to products and solutions that contribute toward a circular economy. Circular economy, product design and life cycle management are topics of high materiality for the sector, according to the SASB Standards. The KPI measures circular revenue as a proportion of total sales, which indicates a full coverage of sales. However, the final decisions on revenue that is eligible to be considered as part of this KPI are always made by a control board located within Philips' sustainability department, which limits visibility to external stakeholders. However, we note that the KPI — and its associated methodology — is audited externally.

The magnitude of the SPTs, reflecting their ambition, is considered significant based on a combination of our three standard benchmarking approaches. Between 2023 and 2025, there is likely to be an improvement compared with BaU, with circular revenue projected to rise by 2.5 percentage points per year compared with 1.67 percentage points per year in 2020-23. Between 2025 and 2030, where further indicative targets are provided, circular revenue is likely to continue to grow, but more slowly. During 2023-30, the growth rate will be 1.4 percentage points per year, slightly slower than that in 2020-23. Compared with peers, Philips is considered an outperformer by virtue of having set a quantified KPI and target. Many of Philips' peers state that although they prioritize circular economy considerations, they do not report on these in a quantified way, nor have they set quantified targets. No direct international standards for the proportion of revenue a company should derive from circular solutions were identified. However, the KPI is considered to be in line with the spirit of ambitious international standards such as the EU Taxonomy, which seek to promote sustainability objectives including a transition to a circular economy.

**KPI 4: Lives improved**

The relevance of KPI 4 is considered moderate based on its materiality for the sector and coverage of the solutions proposed. The consolidated materiality for the sector is moderate based on the mix of products with a high relevance, grouped as health-related products, and products with lower relevance, namely well-being products that are not linked to a specific target population in particular need of the associated benefits. Health solutions associated with the two groups of products account equally for reaching the overall target, despite not having the same effect on improving lives. However, we note that historical information indicates that highly impactful products make up the majority of products eligible under this category and their relative share of sales is not likely to vary considerably in the future.

The magnitude of the SPTs, reflecting their ambition, is considered moderate based on a combination of benchmarking approaches. The issuer has achieved a significant increase in the number of lives improved in the past, indicating efforts beyond the BaU scenario in recent years since the baseline year 2020. We expect the issuer to continue on this positive trajectory, although the increase in the lives improved rate will be somewhat slower than recently observed. The KPI does not target the most vulnerable population specifically, which suggests that the impact on the lives of the beneficiaries will vary in magnitude. We note that this KPI is very specific to the issuer, which limits the ability for robust benchmarking to peers. Similarly, the KPI cannot be benchmarked to sector standards due to the absence of such guidelines and the unique nature of the KPI. The means for achieving the SPTs are credible. However, we would expect a heavier reliance on partnerships and innovation to create a more pronounced positive impact.

**KPI 5: Female leadership**

The relevance of KPI 5 is considered significant because of its focus on women at the senior management level. Although these positions account for a minor share of the total workforce, they have the lowest representation of women. Senior management positions amount to around 1,155 employees (of around 70,000 employees within Philips workforce), which represent around 2% of the total workforce. In 2023, the share of female employees in Philips' management and executive positions (32% and 25%, respectively) was lower than that in staff (48%) and professional (35%) positions. Additionally, the share of female employees in management and executive positions is significantly below the proportion of women in the total workforce (39%). Underrepresentation of women in senior management positions is a common challenge faced by companies in the science, technology, engineering and math (STEM)<sup>3</sup> sector, as well as those in the healthcare sector and more specifically pharmaceutical and medical products (PMP) organizations (where women represented only around 20% of the senior management roles in 2019<sup>4</sup>). This highlights the importance for PMP organizations and for Philips to promote female representation across all roles of the organization, especially at senior management positions. Enhanced gender balance is likely to foster a more inclusive environment, enhance decision-making and boost performance.

The magnitude of the SPTs related to KPI 5, reflecting their ambition and based on a combination of benchmarking approaches, is significant. When compared with the BaU scenario, while there is an absolute improvement, the expected future pathway generally aligns with the historical trend. The projected CAGR is 5.33% for the period 2020-25 and decreases to 4.01% for 2020-30. Overall, this is in line with the historical growth rate of 4.71% recorded from 2020 to 2023. Philips appears to be above peer average, although we identified one better performer with more ambitious targets. In terms of sector standards, the 2025 SPT exceeds the French "Loi Rixain" legislation's short-term target, aiming for a 30% representation of women in management roles by March 2026. The SPT for 2030, which aims to reach 40% of women in senior management roles, is slightly behind the timeline set by Loi Rixain, which targets to achieve the same level of representation by March 2029. The Loi Rixain is used here as a benchmark for one of the most stringent legislation regarding gender parity, but is only applicable to French employees of large companies headquartered in France.

**ESG risk management - Sustainability-linked**

We have not applied a negative adjustment for ESG risk management to the expected impact score. Please refer to our ESG risk management - Use of proceeds analysis for an assessment of the management of ESG externalities around projects and products financed under this framework.

**Coherence - Sustainability-linked**

We have not applied a negative adjustment for coherence to the expected impact score. Please refer to our Coherence - Use of proceeds analysis for an assessment of the coherence between projects and products financed under this framework and the overall sustainability strategy of the company.

## Appendix 1 - Mapping the eligible categories and key performance indicators to the UN SDGs

Philips' framework is likely to contribute to four of the UN SDGs. The two eligible use-of-proceeds categories are likely to contribute to two SDGs, while the five sustainability-linked KPIs are likely to contribute to four SDGs, namely:

| UN SDG 17 Goals                                 | Eligible Category  | SDG Targets   |
|---|--|---|
| GOAL 12: Responsible Consumption and Production | Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products - KPI 3: Circular Revenues | 12.2: Achieve the sustainable management and efficient use of natural resources<br>12.5: Substantially reduce waste generation through prevention, reduction, recycling and reuse   |
| GOAL 3: Good Health and Well-being              | Access to essential services: healthcare - KPI 4: Lives Improved   | 3.1: Reduce the global maternal mortality ratio to less than 70 per 100,000 live births<br>3.2: End preventable deaths of newborns and children under 5 years of age<br>3.8: Achieve universal health coverage with access to quality and affordable essential health-care services and medicines for all |
| GOAL 13: Climate Action                         | KPI 1: Absolute Scope 1 and 2 GHG emissions<br>KPI 2: Absolute Scope 3 GHG emissions   | 13.2: Integrate climate change measures into national policies, strategies and planning   |
| GOAL 5: Gender Equality                         | KPI 5: Female Leadership   | 5.5: Ensure women's full participation and equal opportunities for leadership at all levels of political and economic life  |

The UN SDGs mapping in this SPO takes into consideration the eligible project categories and KPIs and associated sustainability objectives/benefits documented in the issuer/borrow/lender's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance, and the UN SDG targets and indicators.

## Appendix 2 - Summary of the eligible categories in Philips' framework

| Eligible Project Category   | Description   | Sustainability Objectives   | Main Impact Reporting Metrics  |
|---|---|---|--|
| Circular economy adapted products, production technologies and processes; and/or certified eco-efficient products | <p>Propositions that qualify for Circular Revenues must comply with the requirements for at least one of the Circular Revenue categories. These include, among others, products with low weight or containing a minimum threshold of recycled or bio-based plastics, as-a-service models, software running in the cloud, telehealth, upgrades, lifetime extensions, and refurbished equipment. A Green/EcoDesigned Product must comply with all applicable legal requirements, the Philips policies and with all the stated EcoDesigned Product requirements on our 4 focal areas: Energy, Substances, Circularity and Packaging. This aims to improve the energy efficiency of our products, use less resources and more recycled content, avoid the use of hazardous substances, design for circularity, and make our packaging easier to recycle and re-use. Philips 'EcoHeroes' aim to drive innovation beyond our EcoDesign requirements, delivering solutions that are demonstrably setting the pace in terms of environmental impact. An EcoHero product meets all EcoDesign requirements applicable to new product introductions and outperforms in at least one of the focal areas of EcoDesign (Energy, Packaging, Substances and Circularity).</p> <p>Examples of common requirements as part of our EcoDesign process:</p> <p>Circular Design</p> <ul style="list-style-type: none"> <li>- Design with minimal materials while still meeting clinical and user requirements</li> <li>- Application of sustainable materials</li> <li>- Design optimized for disassembly, recycling, durability, upgrading, re-use, serviceability or refurbishing</li> </ul> <p>Energy</p> <ul style="list-style-type: none"> <li>- Low energy consumption during use and standby, and efficient charging</li> <li>- Auto power down to lower power modes, fast switching to on mode where needed</li> </ul> <p>Packaging</p> <ul style="list-style-type: none"> <li>- Designed for minimized weight and volume</li> <li>- Use of sustainable materials, either recycled materials or certified renewable sources</li> <li>- Phase-out of plastic materials, especially EPS and PVC</li> </ul> <p>Substances</p> <ul style="list-style-type: none"> <li>- Phase-out of hazardous substances and RoHS exemptions</li> <li>- Full compliance with the Philips Regulated Substances List (RSL)</li> </ul> <p>Requirements can be mandatory or best-effort.</p> | <p>Responsible Consumption and Production</p> <p>Climate Action</p> | <p>Circularity:</p> <ul style="list-style-type: none"> <li>- Avoided use of virgin materials (metric tons) through e.g. use of recycled content in materials, secondary reuse</li> <li>- Use of renewable materials (metric tons)</li> <li>- Local recycling of medical equipment (metric tons)</li> </ul> <p>EcoDesign:</p> <ul style="list-style-type: none"> <li>- Packaging: use of renewable and reusable materials (metric tons)</li> <li>- Circular design: Avoided use of virgin material through design for low weight (metric tons)</li> <li>- Energy: Estimated CO2 avoided through energy efficiency</li> <li>- Substances: Reduction in hazardous substances emission (in kilos)</li> </ul> |
| Access to essential services: healthcare  | <p>Products and solutions directly providing better healthcare and improve health outcomes for all including Philips Health solutions and wellbeing solutions such as Precision Diagnosis (PD), Image Guided Therapy (IGT), and Connected Care.</p> <p>Products and solutions directly improving access to care for underserved communities:</p> <p>Philips aims to improve the health and well-being of 2.5 billion people per year by 2030, including 400 million people in underserved communities . To that purpose, the company develops specific healthcare innovations and products that are useable in underserved communities, including but not limited to: Ultrasound, patient monitors, mobile imaging, and informatics solutions.</p>  | Good Health and Well-being  | <ul style="list-style-type: none"> <li>- Number of sustainable projects, products and solutions produced</li> <li>- Number of lives improved in underserved healthcare communities</li> <li>- Example case studies of projects, products and solutions</li> </ul>  |



### Appendix 3 - Summary of the key performance indicators in Philips' framework

| KPI   | SPTs   | Sustainability Objectives  | Unit                                |
|---|--|----------------------------|-------------------------------------|
| KPI 1: Absolute Scope 1 and 2 GHG emissions   | 90% reduction by 2040, compared to 2015 (intermediate target: -65% by 2024, -75% by 2025, -80% by 2030, -85% by 2035)  | Climate Change Mitigation  | tonnes CO2eq                        |
| KPI 2: Absolute scope 3 GHG emissions from purchased goods and services, upstream & downstream transportation, business travel and use of sold products | 42% reduction by 2030, compared to 2020 (intermediate targets: -30% by 2026, -33% by 2027, -36% by 2028, -38% by 2029) | Climate Change Mitigation  | tonnes CO2eq                        |
| KPI 3: Circular Revenues  | 30% share of circular revenues by 2030 (intermediate target: 25% by 2025, 27% by 2027, 28% by 2028, 29% by 2029)       | Circular Economy           | annual revenues                     |
| KPI 4: Lives Improved   | 2.5 billion lives improved by 2030 (intermediate targets: 2bn by 2025, 2.2bn by 2027, 2.3bn by 2028, 2.4bn by 2029)    | Good Health and Well-being | billion people                      |
| KPI 5: Female Leadership  | 40% share of female leadership by 2030 (intermediate targets: 35% by 2025, 37% by 2027, 38% by 2028, 39% by 2029)      | Gender Equality            | share of women in senior management |

### Endnotes

<sup>1</sup> Point-in-time assessment is applicable only on the date of assignment or update.

<sup>2</sup> [WHO reveals leading causes of death and disability worldwide: 2000-2019](#), World Health Organization, December 2020

<sup>3</sup> [State of Girls and Women in STEM](#), The National Girls Collaborative Project (NGCP), March 2023.

<sup>4</sup> [Women in healthcare: Moving from the front lines to the top rung](#), Mc Kinsey & Company, August 2020.

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