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Proposed 2024 Remuneration Policy for the Board of Management

Please find below the 2024 Remuneration Policy for the Board of Management, that is proposed and recommended for adoption during the Annual General Meeting of Shareholders to be held on May 7, 2024. This 2024 Remuneration Policy will combine and replace the previous Remuneration Policy and LTI Plan, which were adopted and approved, respectively, by our shareholders at the 2020 Annual General Meeting of Shareholders. Please also refer to the explanatory note to the relevant agenda item (as published on the company's website, www.philips.com/agm), describing the process we followed, how we engaged with our stakeholders and the main changes following from the proposal. Those explanations are incorporated by reference and constitute an integral part of the proposed 2024 Remuneration Policy.

Objectives and principles

The objectives of the Remuneration Policy for members of the Board of Management are in line with those for Philips Executives throughout the Philips group: to focus them on pursuing our purpose to improve people's health and well-being through meaningful innovation, and on delivering on our strategy, to motivate and retain them to create superior, long-term stakeholder value.

Thus, the Remuneration Policy is designed to:

- Support the company's overall performance and our commitment to drive progressive value creation through a strategy of focused organic growth, scalable patient- and people-centric innovation, and focus on reliable execution;
- Help operationalize our purpose by adopting a fully integrated approach to doing business responsibly and sustainably, in partnership with our stakeholders;
- Enable us to attract, motivate and retain world-class talent, by:
  a) Linking a part of remuneration to achieving our strategic imperatives through the criteria and targets included in the Annual and Long-Term Incentives;
  b) Offering market competitive compensation compared to a peer group of business competitors and companies we compete with for executive talent; and
  c) Stimulating employee share ownership to create alignment with shareholder value and to encourage employees to act as stewards and ambassadors of the company;
- Uphold ethical behavior towards our employees, customers, patients, business partners and shareholders, as well as the wider community in which we operate; and
- Lead to fair and internally consistent pay levels by taking into account internal relativities.

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Compensation benchmarking and measuring business performance

As part of the Remuneration Policy, two separate peer groups are used: one to benchmark total compensation levels, the Quantum Peer Group, and one to assess Relative Total Shareholder Return performance against, the Performance Peer Group. The rationale for having these two separate groups is outlined below.

1. Quantum Peer Group for compensation benchmarking purposes

The Remuneration Policy aims to maintain and benchmark a competitive remuneration package for Board of Management-level executive talent while at the same time taking into account the specific remuneration landscape and societal context in which Philips operates. The Quantum Peer Group is used to benchmark total compensation levels, and consists of companies of comparable size, complexity and international scope that Philips competes with for executive talent. The remuneration levels are set at a relatively modest level, being the median of the Quantum Peer Group, compared to the global remuneration landscape and the level that would apply when benchmarked against the Performance Peer Group (see under 2).

The Quantum Peer Group companies selected for remuneration benchmarking purposes are either business competitors, with an emphasis on companies in similar sectors, notably in the healthcare, technology-related or consumer-products areas, or companies we compete with for executive talent. These consist of predominantly (75%) Dutch / European companies and up to 25% of US based global companies, of comparable size, complexity and international scope.

Data research is carried out each year on the remuneration practices within the Quantum Peer Group.

As per 2024, the Quantum Peer Group consists of the following companies:

European companies (14)		Dutch companies (4)	US companies (6)
Alcon	Lonza	Ahold Delhaize	Baxter
BAE Systems	Nokia	AkzoNobel	Becton Dickinson
Dräger	Reckitt Benckiser	ASML	Boston Scientific
Ericsson	Roche	Heineken	GE Healthcare
Fresenius Medical Care	Siemens Healthineers		Medtronic
Getinge	Smith & Nephew		Stryker
GSK	Thales		

If deemed appropriate, changes to the Quantum Peer Group may be made by the Supervisory Board, without approval from the General Meeting of Shareholders, up to three companies on an annual basis (for instance for reason of changes in business or competitive nature of the companies involved), or six companies in total. Any changes to the Quantum Peer Group and reason of change will be disclosed in the subsequent remuneration report.

2. Performance Peer Group for Relative Total Shareholder Return performance

The Remuneration Committee ensures that business performance is measured against the relevant business competitors. Peer companies are explicitly selected – taking into account a range of criteria – to reflect the business portfolio of Philips. As such, they represent our genuine business competitors in the health technology and other sectors we operate in and taking into account our global business presence. Contrary to the composition of the Quantum Peer Group (see above under 1.), non-European companies are not underrepresented in the Performance Peer Group. The Performance Peer Group composition is shown in the Relative Total Shareholder Return section.

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Remuneration structure

The remuneration offered to the members of the Board of Management consists of several elements, which are outlined in the table below. Additional information on the structure of various elements is presented in the subsequent sections.

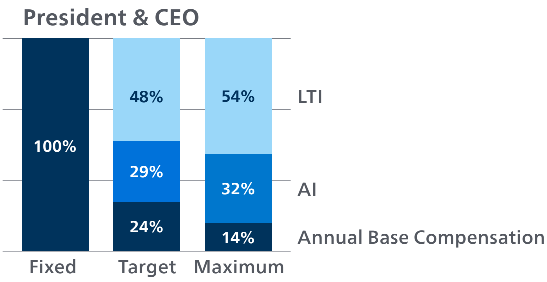
Total direct compensation and each main component, such as Annual Base Compensation, the on-target Annual Incentive and Long-Term Incentive grant size, is aimed at or close to the median of the Quantum Peer Group.

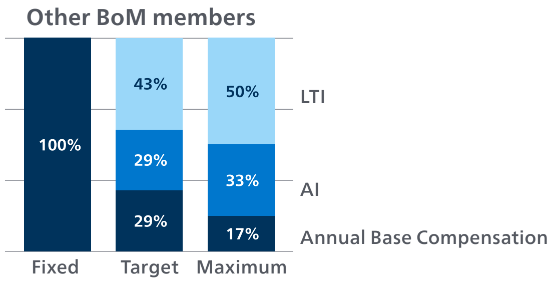
Annual Base Compensation		
Definition and purpose	**Policy level**	
Fixed cash payments intended to attract and retain executives of the highest caliber and to reflect their experience and scope of responsibilities	Annual Base Compensation levels, as set by the Supervisory Board, are based on factors including the median of the quantum peer group benchmark data, performance and experience of the individual member and internal relativities.	
Annual Incentive (AI)		
Definition and purpose	**Policy (maximum) level**	
Variable cash incentive of which achievement is tied to specific financial and non-financial targets derived from the company's annual strategic plan	**President & CEO** On-target: **120%** Maximum: **240%** of Annual Base Compensation	**Other BoM members** On-target: **100%** Maximum: **200%** of Annual Base Compensation
Long-Term Incentive (LTI)		
Definition and purpose	**Policy level**	
Variable equity incentive of achievement is tied to targets reflecting long-term stakeholder value creation and delivered in the form of performance shares	**President & CEO** Annual grant size: **200%** Maximum vesting: **400%** of Annual Base Compensation	**Other BoM members** Annual grant size: **150%** Maximum vesting: **300%** of Annual Base Compensation
Pension		
Definition and purpose	**Policy level**	
Participation in the Philips Flex ES pension plan in the Netherlands (applicable for all executives) combined with a fixed pension contribution intended to result into an appropriate level at retirement	1) Defined contribution plan with fixed contribution (applicable to all executives in the Netherlands – capped at EUR 137,800; effective January 1, 2024, and subject to annual review by the Dutch Department of Finance) 2) Gross allowance of 25% of annual base compensation exceeding EUR 137,800.	
Additional benefits		
Definition	**Policy level**	
Cash value (grossed up) of the benefits received, which are in line with other Philips executives in the Netherlands	Additional arrangements include expense and relocation allowances, medical insurance, accident insurance, Philips product arrangements and company car arrangements.	

Mix of remuneration elements

To support the policy's objectives, the remuneration policy includes a significant variable part in the form of an Annual Incentive (cash bonus) and Long-Term Incentive in the form of performance shares. As a result, a significant proportion of pay is 'at risk' through incentives.

The charts show the relative value of fixed versus variable compensation. At target opportunity, approximately 71-76% of compensation is variable. At maximum opportunity, approximately 83-86% of compensation is variable.





Annual Base Compensation

Annual Base compensation levels, as set by the Supervisory Board, are based on factors including benchmark data (median of Quantum Peer Group), performance and experience of the individual member and internal relativities. The annual review date for the Annual Base Compensation is typically April 1, and the individual compensation levels are shown in the subsequent remuneration report.

Annual Incentive

Each year, a variable Annual Incentive (cash amount) can be earned based on the achievement of specific targets against criteria as determined by the Supervisory Board at the beginning of the year. For the President & CEO the maximum on-target Annual Incentive amounts to 120% of Annual Base Compensation, for other members of the board of management it amounts to 100% of Annual Base Compensation. The maximum opportunity is two times on-target opportunity. Targets are set at challenging levels and are linked to financial metrics (70% weighting) and non-financial metrics (30% weighting). The Annual Incentive pay-out on metrics in any year relates to the achievements of the preceding financial year versus agreed targets.

As set forth below, the Annual Incentive criteria consist of a financial, and a non-financial element.

Financial element (70% weighting):

At the start of each year, a financial performance metric – which is aligned with the strategic priorities for the year – will be selected for each of the three financial categories:

- profit/margin
- revenue/growth
- cash flow

Furthermore, the Supervisory Board has the option to introduce a shareholder/capital return metric (such as ROA, ROE, ROIC).

Selected performance metrics and their weighting will be disclosed ex-ante in the remuneration report and there will be no retroactive changes once approved by the Supervisory Board and disclosed.

For each of the selected performance metrics, the Supervisory Board sets challenging but realistic target levels. Targeted performance levels and actual achievement will be disclosed ex-post in the subsequent remuneration report. If adjusted metrics have been selected, the Supervisory Board will ensure that payout is aligned with company performance and stakeholder interest.

The targets set for the financial performance metrics will be evaluated against the following performance incentive zone:

Annual Incentive targets	Below threshold	Threshold	Target	Maximum
Pay-out	0%	50%	100%	200%

Non-financial element (30% weighting):

At the start of each year, two to four non-financial performance categories will be selected for each of the members of the Board of Management whereby each selected performance category will receive an equal weighting:

- Customer
- Patient Safety & Quality
- Strategy and Execution
- ESG

For each selected performance category, one or more performance objectives are determined at the start of the year. The selected performance categories and objectives can differ per member of the Board of Management. To enhance transparency, both the selected performance categories as well as the selected performance objectives (within each category) and the measurement description will be disclosed ex-ante in the remuneration report.

For each performance objective, targeted performance levels (i.e., threshold, target and maximum) will be defined at the start of the performance period. As these performance levels contain detailed and company sensitive information, they will not be disclosed in the remuneration report. Instead, a qualitative description of the realized performance will be disclosed ex-post.

For each member of the Board of Management, the Supervisory Board will assess performance and grant a pay-out between 0% and 200% per selected category.

Long-Term Incentive Plan

Members of the Board of Management are eligible for share-based incentive grants under the Long-Term Incentive (LTI) Plan set forth below. The LTI Plan supports the company's longer-term strategy and goals, among others by making vesting levels subject to performance criteria that reflect the company's longer-term strategy and goals. The performance is measured over a three-year vesting period and an additional two-year holding period applies.

Type of plan

The LTI Plan allows for the award of 'performance shares' only (i.e., shares in Royal Philips granted conditionally upon achieving certain business performance targets), without the facility to grant options.

Annual LTI award size, grant dates and reference period

The annual value amount is set by reference to a multiple of Annual Base Compensation and is unchanged from the 2020 policy: for the President/CEO at 200% of Annual Base Compensation; for the other members of the Board of Management at 150% of Annual Base Compensation.

There are four dates of grant per year, which will be the days of publication of the quarterly results. The main grant will be once per year upon publication of the first quarterly results. Other dates of grant can be used in exceptional occasions such as operational or regulatory delays in typical granting schedules, or to facilitate hiring arrangements with incoming members of the Board of Management.

The actual number of performance shares to be awarded is determined by reference to the average closing price of the Royal Philips share measured over the last month of the quarter preceding the actual grant of performance shares (the day of publication of the relevant quarterly results).

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Vesting schedule and additional holding period

Performance shares are subject to cliff-vesting three years after the date of grant. Vesting levels depend upon the achievement of certain targets under the performance criteria set forth below, subject to thresholds and maximum levels as determined in the LTI Plan. During the vesting period, the value of dividends will be added (after the relevant payment date) to the performance shares in the form of shares that vest under the same conditions as the performance shares.

Members of the Board of Management are required to hold vested shares for an additional period of two years (or until the end of their contract period if that period is shorter). Reference is also made to the requirements described in the 'Mandatory share ownership' below.

Performance metrics

The vesting of the performance shares is subject to performance over a period of three years and based on two financial performance metrics and one non-financial performance metric:

- 40% weighting: Relative Total Shareholder Return (TSR)
- 40% weighting: Adjusted Earnings Per Share growth (EPS)
- 20% weighting: ESG performance

Relative Total Shareholder Return (40% weighting)

TSR as realized by Philips over a period of three years is compared to TSR realized by peers from the Performance Peer Group. The current composition of the Performance Peer Group is as follows:

US companies (10)	European companies (7)	Japanese companies (2)
Baxter	Alcon	Canon
Becton Dickinson	Elekta	Terumo
Boston Scientific	Fresenius Medical Care	
Danaher	Getinge	
GE Healthcare	Reckitt Benckiser	
Hologic	Siemens Healthineers	
Johnson & Johnson	Smith & Nephew	
Medtronic		
Resmed		
Stryker		

Changes to the Performance Peer Group may be made by the Supervisory Board without approval from the General Meeting of Shareholders in respect of up to three companies on an annual basis (for instance for reason of a delisting or merger) or six companies in total. Any changes to the Performance Peer Group will be disclosed in the subsequent remuneration report.

The rank achieved by Philips within the Performance Peer Group will determine the vesting level, as follows:

TSR Philips	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Vesting %	200	200	200	200	200	180	160	140	120	100	0	0	0	0	0	0	0	0	0	0

TSR scores are calculated based on a local currency approach and by taking a three-month averaging period prior to the start and end date of the three-year performance period.[1] The performance incentive vesting zone is outlined in the table above, which results in zero vesting

1 The reason for using local currency is that the TSR measurement aims to compare the return that companies in the Performance Peer Group deliver to their shareholders with the return that Philips is delivering to its shareholders. Using a common currency approach is considered to deviate too much from actual investment returns experienced by all shareholders from all companies in the Performance Peer Group. Next to that we strive for consistency over time by applying our TSR measurement methodology over longer periods of time.

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for performance below the median and 200% vesting for performance levels above the 75th percentile. For a vesting level of 100% or higher, Philips will need to outperform the median of the Performance Peer Group.

Adjusted Earnings Per Share growth (40% weighting)

EPS growth is calculated by applying a point-to-point method comparing LTI Plan EPS as achieved at the beginning and end of the performance period (i.e., 3 years). EPS for LTI Plan purposes is based on the EPS as reported by Philips, subject to any adjustments required as explained below.

LTI Plan EPS is derived from reported EPS and adjusted for changes in accounting principles during the performance period. The Supervisory Board has discretion to include other adjustments, for example, to account for significant events that were not planned when targets were set or were outside management's control (e.g., impairments, restructuring activities, pension items, legal proceedings, M&A transactions and costs, currency fluctuations). The Supervisory Board will ensure that vesting remains aligned with company performance and stakeholder experience. Any adjustment made will be disclosed in the subsequent remuneration report.

To eliminate the impact of any share buyback, stock dividend etcetera, the number of shares to be used for the purpose of the LTI Plan EPS realization will be the number of common shares outstanding (after deduction of treasury shares) on the day prior to the beginning of the performance period.

The following performance incentive zone applies for LTI Plan EPS:

Adjusted EPS growth Philips	Below threshold	Threshold	Target	Maximum
Vesting	0%	40%	100%	200%

The LTI Plan EPS targets will be set by the Supervisory Board annually. LTI Plan EPS targets concern sensitive information that may not be in the interest of Philips or its shareholders to be disclosed ex-ante, however, these will be disclosed retrospectively at the end of the performance period. LTI Plan EPS targets and the achieved performance will be published in the first subsequent remuneration report after the relevant performance period.

ESG Performance (20% weighting)

Philips believes that ESG performance will improve the company's performance as a whole and, therefore, that it should be explicitly linked to (long-term) remuneration. Annually, we will select four auditable objectives at the start of each performance year in line with our long-term strategic priorities. Selected objectives including their measurement description will be disclosed ex-ante in the remuneration report, whereby each objective will have a 5% weighting.

For each of the four objectives challenging targeted performance levels (i.e., threshold, target and maximum) are set, based on a point-to-point method comparing levels as achieved at the beginning and end of the performance period (i.e., 3 years). The vesting is determined based on the following scheme:

No. of objectives achieved within or above target zone	Vesting %
0	0
1	0
2	0 - 100
3	100 - 150
4	150 - 200

The Supervisory Board will assess the overall performance on all targets to decide on the final vesting. When performance is on average lower/higher within the target range per ESG objective, the vesting will be lower/higher positioned in the vesting range. For example, if two out of four objectives are realized within target zone whereby both have a realized performance between threshold and target, then the vesting % will be at maximum 50%.

The Supervisory Board may apply discretion to include adjustments in its assessment, for example to account for events that were not planned when targets were set or were outside management's control (e.g., M&A, portfolio changes). The Supervisory Board will ensure that vesting remains aligned with company performance and stakeholder experience. Any adjustment made will be disclosed in the subsequent remuneration report. Furthermore, the targeted performance levels as well as the realized performance will be published in the first subsequent remuneration report after the relevant performance period.

Change of control

In the event of a change of control of the company, the Supervisory Board may decide to accelerate the vesting of any unvested LTI awards, subject to the achievement of the performance conditions to the date of completion of the change of control in accordance with the performance incentive zone in place, taking into account the principles of reasonableness and fairness and, unless the Supervisory Board determines otherwise, the shares which vest will in principle be reduced on a time pro-rated basis.

Mandatory share ownership

To ensure alignment between the interests of the members of the Board of the Management and the company's long-term value creation, the members of the Board of Management must hold a certain number of shares in the company, which corresponds with 400% of Annual Base Compensation for the President/CEO, and 300% of Annual Base Compensation for the other members of the Board of Management. Until such ownership level is reached, the members of the Board of Management are required to retain all after-tax performance shares that have vested (at vesting, they are allowed to partially 'sell to cover' tax payments due over retrieved variable income), but they are not required to make additional share purchases.

Pension

The pension arrangement applicable to the members of the Board of Management consists of the following elements and is aligned with the pension arrangement as applicable for Philips employees in the Netherlands:

Pension plan based on collective defined contribution and average pay type of accrual

Members of the Board of Management participate in the Philips Flex Pension Plan in the Netherlands, which is a Collective Defined Contribution plan with a fixed contribution of 30.3% of the pensionable salary (including an own contribution of 2%), being the maximum fiscally allowed salary of EUR 137,800 (effective January 1, 2024, and subject to annual review by the Dutch Department of Finance) minus the applicable offset (franchise). The Flex Plan has a target retirement age of 68 and a target accrual rate of 1.85%.

The Philips Flex Pension Plan in the Netherlands is funded through the Stichting Philips Pensioenfonds (the Philips Pension Fund) of the Netherlands. The conditions contained in the funding agreement between Royal Philips and the Philips Pension Fund, as well as the by-laws and the regulations of the Philips Pension Fund apply.

Gross allowance for Annual Base Compensation exceeding the fiscal salary limit

Members of the Board of Management receive a gross pension allowance equal to 25% of the Base Compensation exceeding the abovementioned EUR 137,800.

Members of the Board of Management have the opportunity to make voluntary after-tax contributions (from the pension allowances received) into a defined contribution scheme provided through Centraal Beheer PPI. Dependents cover for income above the abovementioned EUR 137,800 is provided on an insured basis regardless whether any voluntary contributions are made. In line with other executives in the Netherlands, Philips covers the cost of this insurance cover.

Services agreements

Pursuant to Dutch law, the members of the Board of Management are engaged by means of a services agreement (‘*overeenkomst van opdracht*’). The term of the services agreements is aligned with the term for which the relevant member has been appointed by the General Meeting of Shareholders.

The services agreements provide that early termination of the contract by either party, other than termination for urgent cause (‘*dringende reden*’), is subject to a six months’ notice period. Such a notice period does not apply if a Board of Management member is not re-appointed upon expiration of the services agreement. The services agreements include, in accordance with the Dutch Corporate Governance Code, a severance payment which is limited to a maximum of one year’s Annual Base Compensation. Furthermore, new service agreements (as of January 1, 2024) will include a clause that members of the Board of Management are not eligible for an Annual Incentive pay-out over a period of garden leave during the notice period (if applicable). This is aligned with the practice as operated for the Dutch executive population.

In case of the appointment or re-appointment of a member of the Board of Management, the main elements of the services agreement shall be made public no later than at the time of issuance of the notice convening the General Meeting of Shareholders in which a proposal for (re-)appointment of that member of the Board of Management has been placed on the agenda.

Additional arrangements

In addition to the main conditions of the service contracts, a number of additional arrangements apply to members of the Board of Management. These additional arrangements, such as expense and relocation allowances, medical insurance, accident insurance, Philips product arrangements and company car arrangements are broadly in line with those for the Dutch executive population. In the event of disablement, members of the Board of Management are entitled to benefits, also in in line with the entitlements of other Philips Executives in the Netherlands. The members of the Board of Management also benefit from coverage under the company’s Directors and Officers (D&O) liability insurance.

The company does not grant personal loans to members of the Board of Management.

Claw-back

Annual Incentives and Long-Term Incentives paid to any member of the Board of Management are subject to claw-back provisions, which allow the Supervisory Board, acting in its sole discretion, to recoup some or all of the relevant payments if:

a. The relevant incentive has been paid, granted, vested and/or delivered based on incorrect financial or other data (in accordance with article 2:135 sub 8 of the Dutch Civil Code);

b. The assessment whether an applicable performance condition and/or target was satisfied, was based on an error, inaccurate or misleading information or assumptions;

c. There are circumstances which would allow the company to terminate the services contract with such member of the Board of Management for urgent cause (‘dringende reden’);

d. Such member of the Board of Management was involved in, or directly or indirectly responsible for a violation of the Philips General Business Principles or applicable law;

e. The company or the business in which such member of the Board of Management works/worked or was responsible for, suffered a material failure of risk management; or

f. Something which occurred in the period relevant to the incentive has a sufficiently significant impact on the reputation of the company or its group members to justify the operation of a recoupment claim.

The Supervisory Board shall exercise its discretion to claw back any Annual Incentive or Long-Term Incentives payment or any other incentive-based compensation in accordance with the 'Policy Regarding the Recovery of Erroneously Awarded Incentive-Based Compensation' of Royal Philips, providing for the mandatory claw-back of excess incentive-based remuneration in the event of a mandatory accounting restatement.

Additionally, the Supervisory Board has the authority to adjust (downward) the value of Annual Incentives and Long-Term Incentives and any other variable remuneration components in the event of an unfair result as provided for in article 2:135 sub 6 of the Dutch Civil Code, and to include adjustments for changes in accounting principles during the performance period and other adjustments to account for events that were not planned when targets were set or were outside management's control.

Hiring policy

In case of appointments to the Board of Management, both in case of internal appointments or an external hire, the Supervisory Board will determine the remuneration of the individual in accordance with this Remuneration Policy. In addition, the Supervisory Board may consider applying some of the following items:

- Depending on the date of appointment as member of the Board of Management or date of hire, the Supervisory Board may on a case-by-case basis set pro rata Annual Incentive targets and amounts and/or a pro rata grant size of the Long-Term Incentive.
- In case of internal promotions, commitments made prior to the appointment as member of the Board of Management may continue to be honored as new remuneration arrangements apply.
- In case of external hires, cash or share-based buy-out awards may be awarded, (partially) covering compensation that the incoming member of the Board of Management forfeits by leaving previous employers.
- This shall be disclosed as part of the proposal for appointment of that member of the Board of Management.

Deviation

As provided under Dutch statutory law, the Supervisory Board may temporarily and under exceptional circumstances deviate from this remuneration policy, ultimately until a new Remuneration Policy is adopted by the General Meeting of Shareholders. Exceptional circumstances cover only situations in which the deviation from the Remuneration Policy is necessary to serve the long-term interests and sustainability of the company as a whole or to assure its viability. This may concern all aspects of the policy. Deviations shall be aligned with the main objectives and principles of the Remuneration Policy and any such deviations shall be made by the Supervisory Board following a proposal from the Remuneration Committee. Any deviations shall be disclosed in the subsequent remuneration report.